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QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

January 1989

Quarterly Economic Report for Small Business

January 1989

Prepared by
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NFIB QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS
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SUMMARY OF RESULTS

by

William C. Dunkelberg
Purdue University

William J. Dennis, Jr.
The NFIB Foundation

Small business continues to forge ahead, enjoying healthy economic conditions and projecting more of the same. The report's strength was led by capital expenditures and employment. However, nearly all indicators of small business economic activity were favorable. There were two exceptions: interest rates continued to climb and planned selling price increases rose sharply.

The fourth quarter was a very good quarter for small business. The highlight was the strongest employment performance in four years. Close was capital expenditures. The frequency of capital expenditures made was the greatest in three years. Other good news spiced the quarter. The Index of Small Business Earnings was unchanged from October's high level. Inventory positions were generally satisfactory. The frequency of price increases was unchanged from October. Fewer raised employee compensation than in the prior quarter indicating no inflationary push from that direction. Though the Index of Small Business Sales slid, sales were still healthy. The sole negative was the continued rise in interest rates.

Small business owners anticipated the next three months would be about the same. They expected no major changes. As a result, the Index of Small Business Optimism forecast the first quarter's GNP (annualized) to hover around 4.0 percent. Planned capital expenditures tied the survey record high. Planned employment change was the most favorable in over a decade on a seasonally adjusted basis. Sales expectations and inventory investment also moved higher. The climate for small business expansion remained steady, but expected general business conditions slipped slightly as did expected credit conditions. However, a sharp increase in the number planning price increases clouded the report's positive tenor.

Outlook

The small business outlook has gradually deteriorated since 1985. However, within the last year, it has shown renewed signs of life.

The relative measure of the small business outlook - expected general business conditions - declined between October and January on a seasonally adjusted basis. But except for October, January produced the best number in five quarters. Twenty-two (22) percent believed that business conditions would improve in the next three to six months compared to 12 percent who believed they would deteriorate (Table 1). Given that the economy is already doing well and is in its sixth year of expansion, the surprise is not that few small business owner respondents expected conditions to improve. The surprise is that many did not expect conditions to get worse.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Much Better	2	2	2	1	1	2	2
Better	27	24	22	21	15	17	20
Same	56	56	54	58	54	53	58
Worse	9	10	16	12	18	15	11
Much Worse	1	2	1	1	3	1	1
Don't Know	5	5	5	7	8	11	7
No Answer	*	1	*	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The absolute measure of the small business outlook - the climate for small business expansion - showed no change on a seasonally adjusted basis. January represented the third consecutive quarterly report without movement in the number. Seventeen (17) believed it a good time for small business expansion and 44 percent believed it was not (Table 2). Despite the relatively stable proportion with a positive view, the notable feature in the data is the declining number with a negative view. Many "negatives" have shifted to uncertainty, suggesting that there is some movement of opinion and in a favorable direction.

Those believing it a good time for small business expansion most often attributed their view to general economic conditions and sales

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME	1986	1987	1988		1988		1989
TO EXPAND	JAN	JAN	JAN	APR	JUL	OCT	JAN
Yes	20	18	13	21	19	16	17
No	47	49	52	41	43	47	44
Uncertain	32	32	35	37	37	37	38
No Answer	1	1	*	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

prospects (Chart 1). Those with negative and uncertain views most often pointed to pointed to general economic conditions. However, higher interest rates took their toll. The number attributing their negative view of future economic conditions to interest rates and finance moved up from October, increasing six percentage points to 15 percent. Rising costs appeared to have minimal influence. The numbers attributing negative and uncertain views to expansion costs only edged up from October.

Credit Conditions

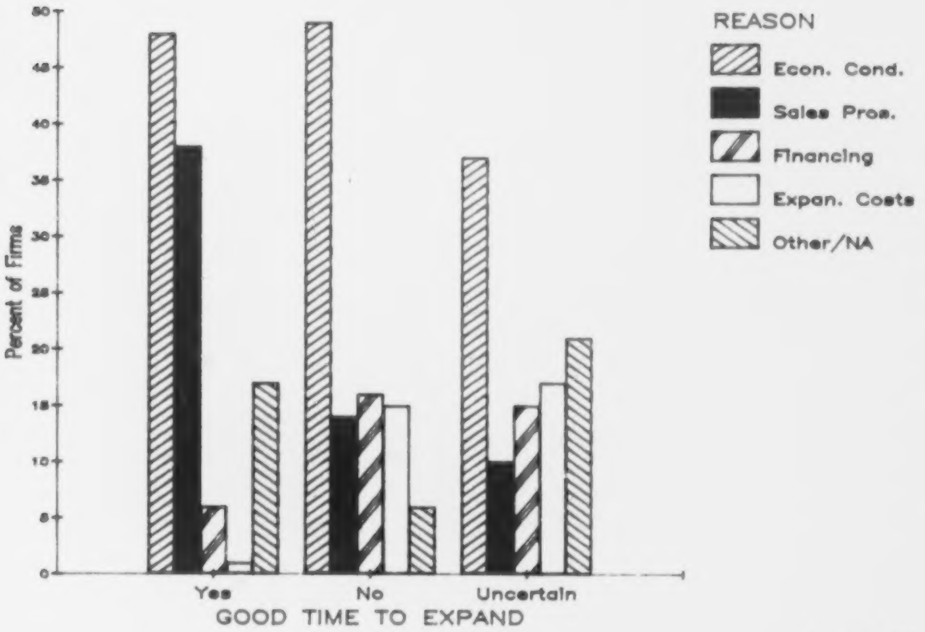
Small business credit conditions along with higher expected selling prices were the two negative aspects of January's data. Interest rates continued to rise over the fourth quarter reaching their highest level in two years. While these increases appear to have done little to halt the capital expenditure boom (see, Capital Expenditures), they have begun to negatively affect the small business outlook (see, Outlook). Despite the interest rate trend, small business did not expect further increases in the near future.

Small business borrowers paid an average of 12.0 percent for their short-term business loans (Table 3). The fourth quarter's average was 0.4 percent higher than the third quarter's, 0.8 percent higher than the second quarter's, and 1.2 percent higher than the first quarter's. With nearly 50 percent of these loans now tied directly to the prime rate, borrowing costs are increasingly sensitive to interest rate movements. Over 70 percent of all regular borrowers saw their financing costs rise in the last three months (Table 4).

Despite the rise in rates, small business borrowers indicated little change in the availability of loans. January's loan availability data was almost identical to that reported one year

Chart 1

"GOOD TIME TO EXPAND" by REASON FOR VIEW OF EXPANSION



Source: NFIB

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1986	1987	1988		1988		1989
RATE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Under 10%	2	10	5	10	4	3	2
10%-12%	36	32	36	33	34	38	36
13%-15%	23	2	5	6	7	8	10
16% or More	2	5	4	2	2	2	3
Prime +1	27	25	28	25	29	27	28
Prime +2	16	17	17	21	20	18	18
Prime +3 or More	4	4	5	3	4	4	3
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	12.1%	10.7%	11.1%	10.8%	11.2%	11.6%	12.0%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1986	1987	1988		1988		1989
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Higher	*	1	*	1	*	1	2
Higher	2	2	12	6	17	22	25
Same	20	18	21	23	15	13	9
Lower	15	15	4	5	1	1	1
Much Lower	*	*	*	*	*	*	*
Don't Know	1	1	1	1	2	1	1
Inapplicable (borrow infrefrequently;no answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

ago. Eight percent - 21 percent of borrowers - felt loans were harder to obtain then they were three months before compared to one percent - 3 percent of borrowers - who felt they were easier (Table 5). But the gap is typical of periods with comparatively easy access to business loans and suggests little difficulty obtaining them.

Table 5

AVAILABILITY OF LOANS COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1986	1987	1988		1988		1989
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Easier	3	3	1	2	1	1	1
Same	26	24	29	25	25	28	27
Harder	7	7	7	7	7	7	8
Don't Know	2	3	2	2	2	2	2
Inapplicable (Don't Borrow; No Answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

Small business borrowers did not expect financing conditions to change appreciably over the next three months. Nine percent anticipated conditions would worsen in contrast to one percent that anticipated they would improve (Table 6). Like reported loan availability, these data showed minimal deterioration from October and are virtually identical to last January.

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1986 JAN	1987 JAN	1988 JAN	1988 APR	1988 JUL	1988 OCT	1989 JAN
Easier	3	3	2	2	2	2	1
Same	24	23	26	22	22	24	24
Harder	8	8	9	8	8	9	9
Don't Know	3	3	2	2	3	3	4
Inapplicable (Don't Borrow; No Answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

Thirty-eight (38) percent considered themselves "regular borrowers," i.e., they borrow at least once a quarter. January's number reflected the gradual decline in regular borrowing which has occurred since inflation slowed precipitately. With borrowing regular apparently tied to the inflation rate, the number of borrowers should be expected to increase somewhat over the next year. However, small business earnings remain healthy (see, Earnings), suggesting regular borrowing activity will not change very much in the coming months.

Prices

Inflation continues to gather momentum. While we may yet escape notably higher inflation in 1989, January's small business price data suggested that the year's inflation rate will increase noticeably. The big unknown influencing the course of prices is the behavior of employee compensation. Small business compensation gains have been moderate - even modest - over the last few years (see, Compensation) as they have been in the larger economy. January's data indicate that situation will continue. But increasingly tight labor markets across growing portions of the country (see, Employment) and rising benefit costs, particularly health insurance, mean that moderate increases cannot continue indefinitely.

Twenty-nine (29) percent reported higher selling prices in the fourth quarter than in the third (Table 7). While the figure is 11 percentage points higher than reported just two years ago (January, 1987), it is consistent with data collected over the five quarters. Eight percent reported average decreases. That number is also consistent with recent data, but five to eight percentage points lower than the numbers recorded as recently as 1985 and 1986.

Plans to increase prices jumped sharply in January. Thirty (30) percent reported plans to raise average selling prices in the first quarter (Table 8), the highest proportion doing so since January, 1982. While seasonality plays a role in the unusually large number, the rate of price increase has racheted higher in each of the two years as have successive January's peaks. With price performance historically paralleling price plans (Chart 2), it is likely that sharply higher plans will be translated into more frequent prices increases.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE	1986	1987	1988		1988		1989
SELLING PRICES	JAN	JAN	JAN	APR	JUL	OCT	JAN
Lower Now	14	12	12	10	9	8	8
No Difference	63	65	57	57	58	59	58
Higher Now	20	18	29	30	29	29	29
Less than 1%	*	1	1	*	1	*	1
1.0-1.9%	2	3	2	4	3	4	4
2.0-2.9%	3	3	4	5	5	4	5
3.0-3.9%	2	2	3	4	3	5	4
4.0-4.9%	3	2	3	3	4	4	4
5.0-7.9%	4	3	6	8	6	6	6
8.0-9.9%	1	1	2	2	1	1	1
10% or More	4	2	8	3	5	4	3
No Answer	1	1	*	1	1	1	1
No Answer	3	5	2	3	4	4	5
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Plans to raise prices were broadly spread across industries. Every major industry except the services reported more frequent plans to raise prices. The sharpest increases came from those in construction, financial service, manufacturing and professional service industries. In absolute terms, over 30 percent in the wholesale, manufacturing, professional service, construction and retail industries projected price hikes. Those in the agricultural (n=100) and transportation/communications (n=70) industries were least likely to plan to increase prices.

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1986 JAN	1987 JAN	1988 JAN	1988 APR	1988 JUL	1988 OCT	1989 JAN
Lower	3	3	5	3	2	3	2
No Change	56	55	55	54	53	56	49
Increase	25	22	27	24	26	25	30
Less than 1%	*	*	*	*	*	*	*
1.0-1.9%	3	2	3	2	2	3	3
2.0-2.9%	4	4	3	3	3	4	4
3.0-3.9%	4	3	4	4	4	4	4
4.0-4.9%	3	3	5	3	4	3	4
5.0-7.9%	6	6	7	7	7	7	9
8.0-9.9%	1	1	1	1	2	1	1
10% or More	3	2	3	3	3	3	3
Don't Know	1	1	1	1	2	*	3
Don't Know	13	14	12	13	14	12	13
No Answer	3	6	1	6	5	4	6
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Compensation

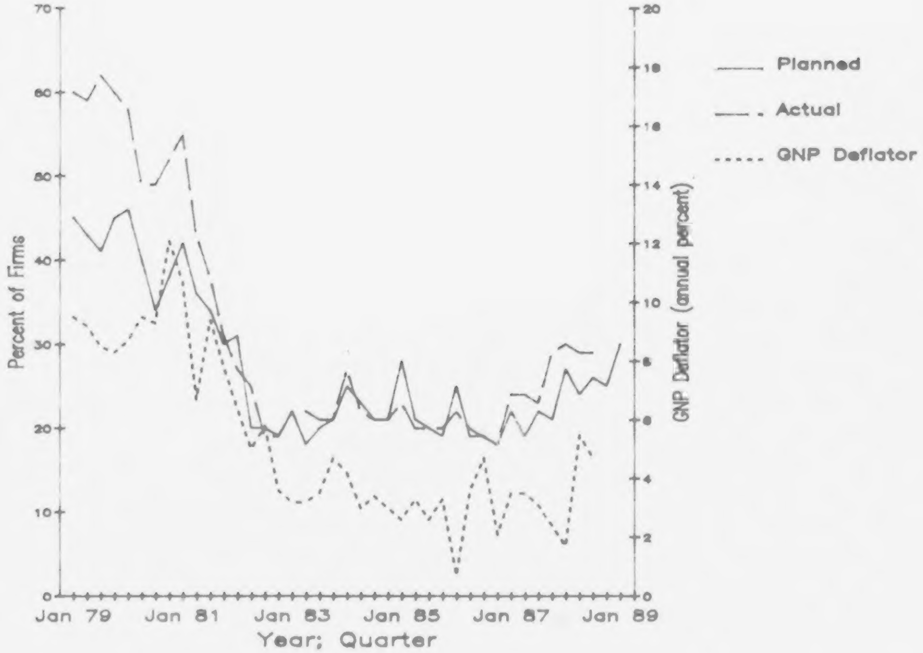
Compensation increases continued to be moderate in the fourth quarter and plans for the first quarter suggested nothing different. While employee compensation costs are rising, they are clearly not the principal factor driving small business prices higher.

Twenty-four (24) percent reported higher employee compensation costs over the last three months (Table 9). The figure was two percentage points lower than October, but similar to those recorded throughout 1988. The average increase per firm with higher compensation was 1.4 percent (annualized) or 5.9 percent (annualized) across all small firms. Average increases in the fourth quarter were typical of those reported over the last four years. Thus, there is no evidence from small business that compensation costs are pushing prices higher.

January's employee compensation plans suggested that future compensation costs will lag price increases. Twenty-four (24) percent reported plans to raise employee compensation in the next three months (Table 10). The figure was three percentage points higher than recorded in October, but identical to last January's. The average increase planned, 5.9 percent per firm planning an increase, was the highest since institution of the series in 1984. Yet, projected costs across all firms were not substantially larger than in January, 1986, or January, 1988.

Chart 2

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Sales

Fourth quarter sales were healthy. Thirty-one (31) percent reported higher sales in the last three months of the year than in the previous three months; 25 percent reported them lower (Table 11). It was the best fourth quarter since 1983.

The seasonally-adjusted Index of Small Business Sales slipped from the third quarter (Chart 3). However, the slide was not large and left the Index at an historically high level. The fourth quarter's Index score was typical of the year's average making 1988 the best year for sales in the last four.

Sales expectations rose on a seasonally adjusted basis. Forty-four (44) percent believed their sales would increase in the next three months; 25 believed they would decline (Table 12). While January's sales expectations data proved favorable, they suggested little change in current sales conditions. Sales expectations have moved in a narrow band over the last nine quarters reflecting solid, if unexciting, demand. January was no different. However, sales

Table 9

CHANGE IN AVERAGE COMPENSATION OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1986	1987	1988		1988		1989
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increased	19	19	23	24	25	26	24
1-2%	3	3	3	3	3	3	3
3-4%	5	6	7	8	7	8	7
5-6%	6	6	6	7	8	7	7
7-8%	2	1	2	2	3	3	3
9-10%	1	1	1	2	2	2	2
Over 10%	1	1	3	1	2	2	5
No Answer	1	1	1	1	*	1	*
Same	74	71	70	69	69	67	69
Decreased	1	2	1	1	1	1	1
No Answer	6	8	6	6	5	6	6
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.7%	5.4%	6.0%	5.6%	5.9%	5.8%	5.9%
All Firms	1.1%	1.1%	1.4%	1.4%	1.5%	1.5%	1.4%

N.A. Not Available * Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1986	1987	1988		1988		1989
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increase	22	20	24	20	18	21	24
1-2%	2	2	2	2	1	2	2
3-4%	7	6	7	6	6	7	7
5-6%	8	7	10	6	6	7	9
7-8%	2	2	2	2	1	1	2
9-10%	1	1	2	2	2	2	2
Over 10%	*	*	1	1	1	1	1
Don't Know	1	1	*	1	1	1	1
No Answer	1	1	*	*	*	*	*
Same	63	65	63	67	67	66	63
Decrease	1	2	2	1	1	1	1
Don't Know	10	9	8	10	11	10	9
No Answer	4	4	3	2	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 10
(continued)

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS

AVERAGE INCREASE							
Firms Increasing	5.4%	5.4%	5.5%	5.5%	5.8%	5.4%	5.9%
All Firms	1.2%	1.0%	1.1%	1.3%	1.0%	1.1%	1.4%

N.A. Not Available *Less than 0.5%

expectations have been historically high over the nine quarters as have sales, suggesting no precipitous change in the existing positive conditions.

Earnings

Small business earnings held steady in the fourth quarter. Twenty-three (23) percent reported earnings higher in the fourth quarter than in the third and 31 percent reported them lower (Table 13). The seasonally-adjusted Index of Small Business Earnings registered virtually no change (Chart 3). In fact, the Index has been stable over the last three quarters and four of the last five. After looking for a direction for over two years, the Index appears to have plateaued at an historically high level.

The distribution of reasons cited for an earnings change (higher or lower) were consistent with those reported over the last several quarters. Volume and seasonality were the principal factors causing

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1986	1987	1988	1988			1989
SALES VOLUME	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Higher	4	4	2	3	4	3	4
Higher	28	27	25	27	36	32	29
About the Same	38	39	46	41	38	45	40
Lower	25	23	23	24	18	17	22
Much Lower	4	5	3	4	3	2	3
No Answer	1	2	1	1	1	1	2
Total	100%	100%	100%	100%	100%	100%	100%

CHART 3

INDICES OF SMALL BUSINESS SALES AND EARNINGS

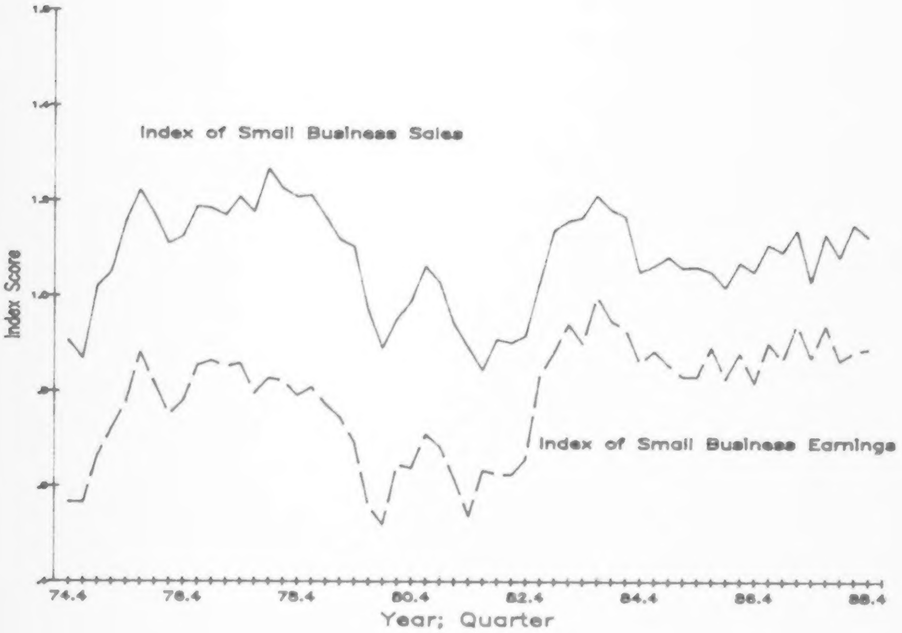


Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1986	1987	1988		1988		1989
REAL SALES	JAN	JAN	JAN	APR	JUL	OCT	JAN
Go Up A Lot	7	7	7	13	8	9	8
Go Up A Little	37	37	36	47	39	34	36
Stay the Same	29	28	33	23	30	26	29
Go Down a Little	18	18	16	11	15	20	18
Go Down a Lot	5	5	4	2	3	6	4
Don't Know	4	3	3	3	4	3	3
No Answer	*	2	1	1	1	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET	1986	1987	1988		1988		1989
EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Higher	2	1	1	1	2	2	2
Higher	18	21	21	19	25	22	21
Same	43	41	45	43	41	46	43
Lower	30	28	27	29	25	25	27
Much Lower	5	6	4	5	4	4	4
No Answer	2	3	2	3	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

the changes (Table 14). But higher selling prices and rising costs - factors associated with higher levels of inflation - appear to have had a modest impact on earnings. The impact of inflation on fourth quarter earnings was little different than its impact has been in other recent quarters.

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH	1986	1987	1988		1988		1989
NET EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Sales Volume	60	57	50	60	59	58	60
Higher Prices	9	9	10	10	7	11	9
Factor Costs*	3	7	5	5	1	6	6
Seasonality	18	17	16	16	22	19	18
Other; NA	10	10	9	9	11	6	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER	1986	1987	1988		1988		1989
NET EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Sales Volume	45	45	38	38	41	39	40
Factor Costs*	16	18	20	23	26	28	21
Seasonality	21	21	21	23	13	17	24
Other; NA	17	16	21	16	20	15	15
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs

Employment

The American economy goes right on producing jobs and small continues to contribute more than its proportionate share. During the fourth quarter, operating small business (as opposed to starts) put on its best employment performance in the last four years. That strength will extend into 1989. Current job openings were reported to be very high. Employment plans for the first part of the new year were among the greatest in over a decade.

Fourteen (14) percent increased employment during the fourth quarter compared to 13 percent reporting a reduction (Table 15). However, seasonally adjusted, the small business performance was very strong. Not only did it produce the highest quarterly numbers in four years, but it was one of the six best quarters in the 12 year series. Not since 1978 has a fourth quarter performance been stronger.

Small business employment growth was distributed across all industrial sectors though contractors reported a much smaller than usual seasonal decline. Manufacturing and non-professional services

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986 JAN	1987 JAN	1988 JAN	1988 APR	1988 JUL	1988 OCT	1989 JAN
Increased	13	12	13	15	20	16	14
Seasonal	4	3	4	6	10	5	5
Non-seasonal	9	9	9	9	10	11	9
Decreased	14	15	17	13	10	13	13
Seasonal	6	7	6	4	2	5	6
Non-seasonal	8	8	11	9	8	8	7
No Change	73	68	70	69	68	69	70
No Answer	*	5	*	3	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.4	4.4	4.0	3.9	3.9	3.6	3.9
Employees decreased per firm decreasing	3.7	4.5	3.2	4.0	3.3	3.7	3.7
Average net change per all firms	-.07	-.16	-.01	+.06	+.44	+.10	+.05

*Less than 0.5%

showed largest per firm increases with professional services and retail also posting positive unadjusted numbers.

Small business employment growth will remain on an upward path. Twenty-four (24) percent reported one or more current job openings (Table 16). Nine percent reported at least one vacancy for unskilled labor. These data indicate that unemployment will hold steady over the next quarter.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB	1986	1987	1988		1988		1989
OPENINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Yes	15	15	23	23	21	25	24
Skilled Labor	11	11	14	14	15	16	15
Unskilled Labor	1	3	2	4	3	4	5
Both	3	2	7	4	3	5	4
No	83	83	75	77	78	74	75
No Answer	2	2	2	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners expected another large expansion of payrolls in the next three months. January plans held at October's high level. Twenty (20) percent planned net additions compared to seven percent who planned declines (Table 17). Seasonally adjusted, January's employment plans were among the best in the survey's 15 year history (Chart 4). Only those plans reported one year ago and in April of 1977 and April of 1978 were stronger.

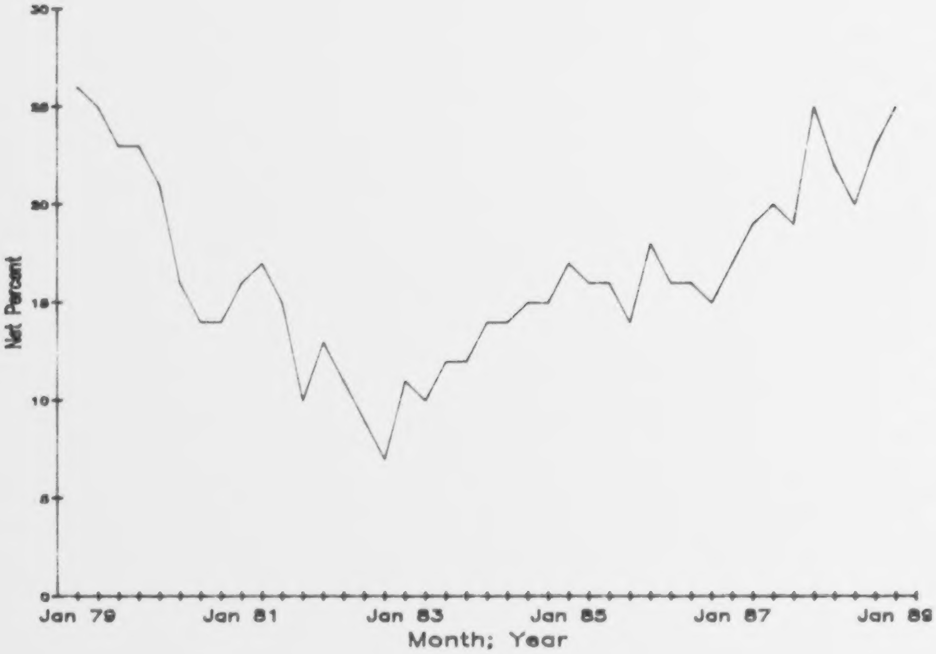
Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE	1986	1987	1988		1988		1989
EXPECTATION	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increase	18	16	19	25	16	18	20
Keep the Same	73	73	74	68	73	69	69
Decrease	7	7	5	5	9	11	7
No Answer	2	4	2	2	2	2	4
Total	100%	100%	100%	100%	100%	100%	100%

Chart 4

SMALL BUSINESS EMPLOYMENT PLANS -
(Net Percent Seasonally Adjusted)



Inventory

January inventory data showed little of note. "Normal" inventory decumulations occurred in the fourth quarter leaving "normal" inventory satisfaction and requiring "normal" inventory rebuilding. If any sharp changes are coming, changes in small business inventory holdings are not about to stimulate them.

Seventeen (17) percent indicated net inventory gains in the fourth quarter; 19 percent reported net reductions (Table 18). The net -2 percentage points was identical to last years January figures somewhat higher than the two January's before. The result was 12 percent reporting inventories "too large" and 10 percent reporting them "too low" (Table 19). The net -2 percentage points is the same satisfaction level as two out of the last three quarters.

Twenty-two (22) percent planned inventory additions in the next three months while 12 percent planned decumulations (Table 20). While the net (add minus decrease) is somewhat smaller in January, 1989, than in January, 1988, the last four sets of January numbers are remarkably similar and show stable economic activity.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY	1986	1987	1988		1988		1989
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increase	16	17	16	21	21	20	17
Same	40	37	44	44	45	46	42
Decrease	22	23	18	15	13	14	19
Not Applicable	20	20	21	18	19	18	19
No Answer	2	3	1	2	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY	1986	1987	1988		1988		1989
LEVEL	JAN	JAN	JAN	APR	JUL	OCT	JAN
Too Large	13	12	17	12	12	10	12
About Right	53	54	47	56	54	58	55
Too Low	10	10	12	10	10	10	10
Not Applicable	20	21	23	21	20	20	21
No Answer	4	3	1	1	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY	1986	1987	1988		1988		1989
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Add	21	22	23	20	16	17	22
No Change	42	41	42	44	45	44	43
Decrease	13	13	11	14	15	17	12
Not Applicable	20	21	22	19	21	20	20
No Answer	4	3	2	3	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Capital Expenditures

Capital expenditures along with employment (see, Employment) were the highlights of January's small business data. While large firms are usually considered the major source of capital expenditures and primarily responsible for the current "capital boom," small business is undoubtedly taking part.

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21). It is the largest percent making capital expenditures since 1985. The composition of those expenditures shifted dramatically, however. The number investing in equipment/vehicles jumped five percentage points from October; the number investing in improved buildings fell four percentage points over the same period. Both are large changes for the series. The changes could be evidence that the 1986 Tax Reform Act has had a major impact on small business investment decisions. However, additional quarters with distributions similar to January's will be required before such an assertion can be made.

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986 JAN	1987 JAN	1988 JAN	1988 APR	JUL	OCT	1989 JAN
All Types+	57%	54%	55%	55%	56%	55%	57%
Equipment/ Vehicles	47	43	45	45	44	44	49
Add Buildings	8	7	8	6	7	7	7
Improved Buildings	16	15	15	16	16	18	14
Land	4	4	6	3	3	4	4

+Percent of firms making one or more capital expenditures

Despite the greater frequency of capital expenditures made, the distribution of their size did not seem to change very much (Table 22). Forty-one (41) percent of all capital expenditures made were less than $10,000 and 63 percent were less than $20,000. The numbers in October, July and April were practically the same. While January, ~~1988~~, produced larger expenditures, it appears an unusual quarter.

Expected capital expenditures (seasonally adjusted) for the next three to six months tied October's survey record high (Chart 5). Thirty-six (36) percent, the largest raw number in the series, planned to make capital outlays (Table 23). Rising interest rates

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986	1987	1988		1988		1989
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Under $1	7	8	6	5	8	7	6
$1 - 4	20	24	19	19	20	20	22
$5 - 9	14	14	11	15	14	13	13
$10 - 19	20	19	21	22	22	21	22
$20 - 49	17	15	19	19	17	17	18
$50 - 99	11	10	10	9	9	11	9
$100 - 499	9	9	9	8	8	8	8
$500 - 999	1	1	1	1	2	2	1
$1,000 or More	1	1	4	1	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

(see, Credit Conditions) may make it more difficult for plans to be realized. However, earnings have held up well during the expansion (see, Earnings) and explain why capital expenditures are rising when interest rates are also going up. The question is how high do interest rates have to rise before capital expenditure activity begins to recede.

Single Most Important Problem

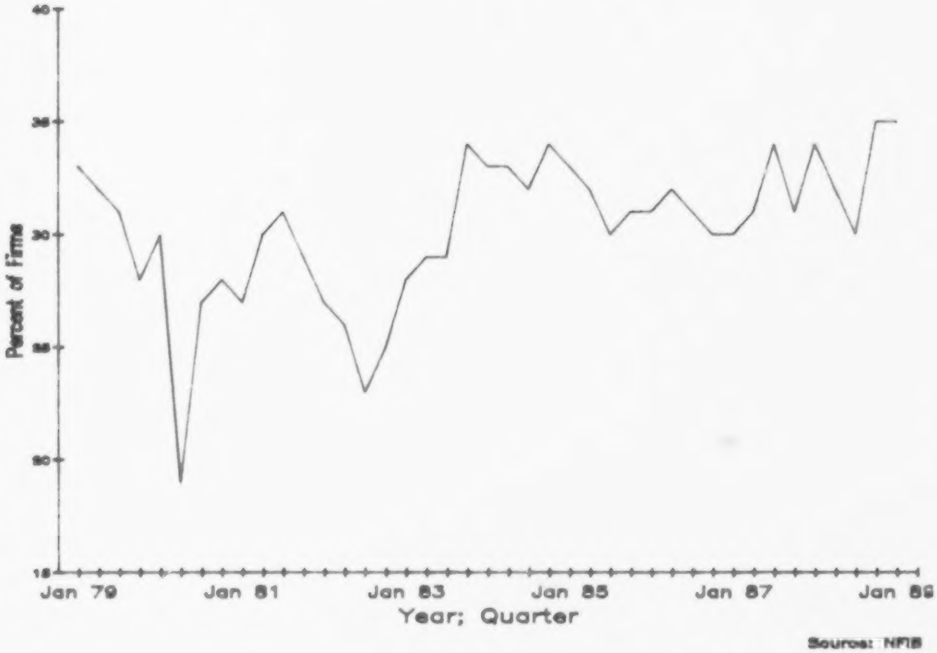
"Taxes" and "Government Regulation(s)/Red Tape" once again were most frequently cited as the single most important problem of small business (Table 24). It was the fifth consecutive quarter that the tandem headed the list and the twenty-third consecutive quarter that "Taxes" has been on top. But the significance of these data lay in the problems that were infrequently cited.

After three consecutive quarters of rising interest rates, the number mentioning "Interest Rates & Financing" as their single most important problem moved two percentage points higher. The rise suggested increasing concern. Yet, only nine percent noted the problem, fewer than noted five others. But the data were consistent with other parts of the report. General feelings and attitudes were beginning to be affected by higher interest rates (see, Outlook), but they had yet to impact actual plans (see, Capital Expenditures).

Just three percent cited "Inflation" as their single most important problem, up one percentage point from October and one percentage point above the record low. These data indicate little small business owner concern over rising prices. In fact, January's level is actually two percentage points below that of January, 1988.

Chart 5

CAPITAL EXPENDITURE PLANS



Source: NFIB

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Yes	32	31	35	33	29	34	36
No	53	53	50	51	57	50	48
Don't Know	12	11	11	12	11	11	13
No Answer	3	5	4	4	3	5	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST	Prior		Prior				1988				1989	
IMPORTANT	High		Low		APR		JUL		OCT		JAN	
PROBLEMS	Date	%	Date	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	4/88+	25	10/74	8	1	25	1	25	1	23	1	22
Inflation	10/74	41	10/87+	2	8	3	8	5	8	2	8	3
Poor Sales	10/82	23	1/75+	1	4	10	3	11	4	11	4	10
Interest Rates & Financing	4/82+	37	7/77	4	7	6	7	5	6	7	6	9
Cost of Labor	7/77	9	7/82	2	6	7	6	6	7	6	7	5
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	15	2	17	2	14	2	16
Competition from Large Business	10/76	13	4/80+	4	3	12	3	11	4	11	3	12
Quality of Labor	10/88+	12	1/83+	3	4	10	5	10	3	12	4	10
Shortage of Fuel Material, Goods	1/74	23	10/82+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	12	-	14	*	13
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
+ Most recent

Index of Small Business Optimism

The Index of Small Business Optimism fell a slight one-tenth of a point on a seasonally-adjusted basis, suggesting no change in underlying economic activity. It declined from 102.9 in October to 102.8 in January (1978=100) (Table 25). The GNP forecast based on the Index projected about a four percent growth rate (annualized) in the year's first quarter. No matter what continuing adjustments are made for bad weather losses, the number reflects a "hot" economy (Chart 6).

Regional Conditions

The Pacific has emerged as the region where small business owners are most optimistic over future business conditions. Wresting the honor from regions along the east coast, Pacific region small business owners have now produced the highest Index of Small Business Optimism in each of the last three quarters. But the regions along the east coast and the reinvigorated Great Lakes

Table 25

INDEX OF SMALL BUSINESS OPTIMISM BY MAJOR COMPONENTS

INDEX	1986	1987	1988		1988		1989
COMPONENTS	JAN	JAN	JAN	APR	JUL	OCT	JAN
General Expectations[1]	113.5	112.0	108.5	117.5	109.3	107.3	110.5
Current Status[2]	99.3	101.3	103.0	101.7	105.7	106.3	104.3
Spending Plans[3]	117.0	116.3	120.3	119.7	113.0	113.7	119.7
Index*	110.3	110.1	110.4	113.4	109.3	103.7	111.4
Index (1978=100)+	101.8	101.6	101.8	102.3	100.5	102.9	102.8

*Index numbers +Seasonally Adjusted

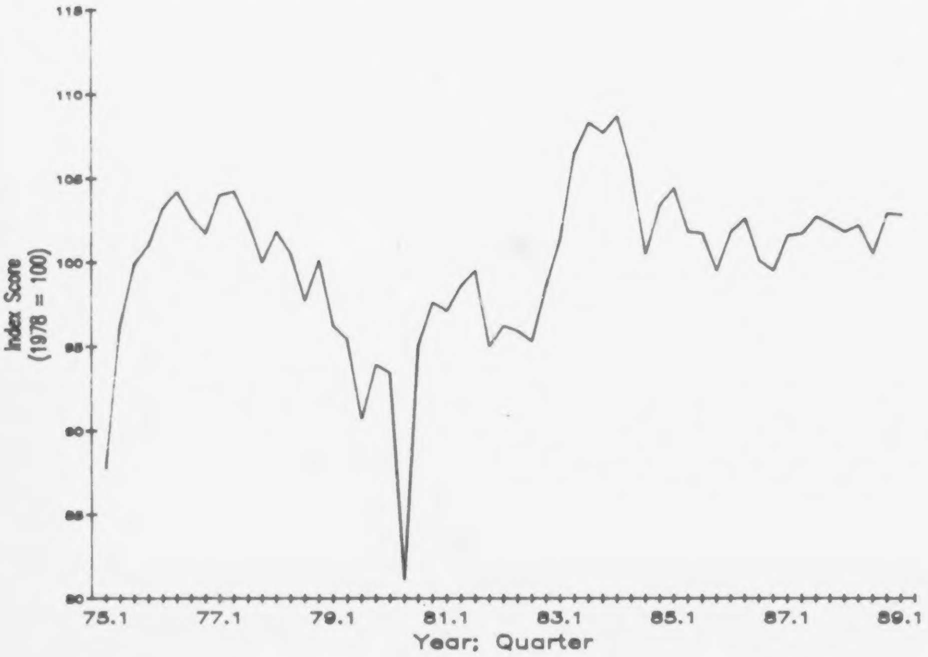
[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions

[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings

[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



closely lagged. The greatest problems lay west of the Mississippi River through the Rockies (Table 26). Chart 7 outlines the sharp regional differences.

All regions except the Mid-Atlantic recorded a lower Index score in January than in October (seasonally adjusted). The lower scores were relatively small and not confined to any part of the country. However, some of the lower scores were part of a general regional trend while others appeared to be a one quarter phenomenon. The unnumbered charts at the end of the text provide a region by region illustration of the quarterly regional Index of Small Business Optimism compared to the region's 1977-78 average level.

New England continued to do reasonably well. But it appears that the region's "glory days" are vanishing rapidly. Between April, 1984, and April, 1988, New England produced the nation's highest Index score every quarter. Despite the loss of its preeminent position, the region's Index in January, 1989, remained well above its 1977-78 average. The region continued a healthy growth pattern. Yet, the Index has been trending down for about the last year and one-half.

The Mid-Atlantic region's Index of Small Business Optimism slid higher in January underscoring the region's strong and stable growth. The gap between January's Index and its 1977-78 average was greater in the Mid-Atlantic states than in any other region in the country.

The Index of Small Business Optimism for the South Atlantic region took the largest fall between October and January of those in any region. No obvious reason for the tumble appeared, however. Since the decline occurred from a comparatively high base, the

Table 26

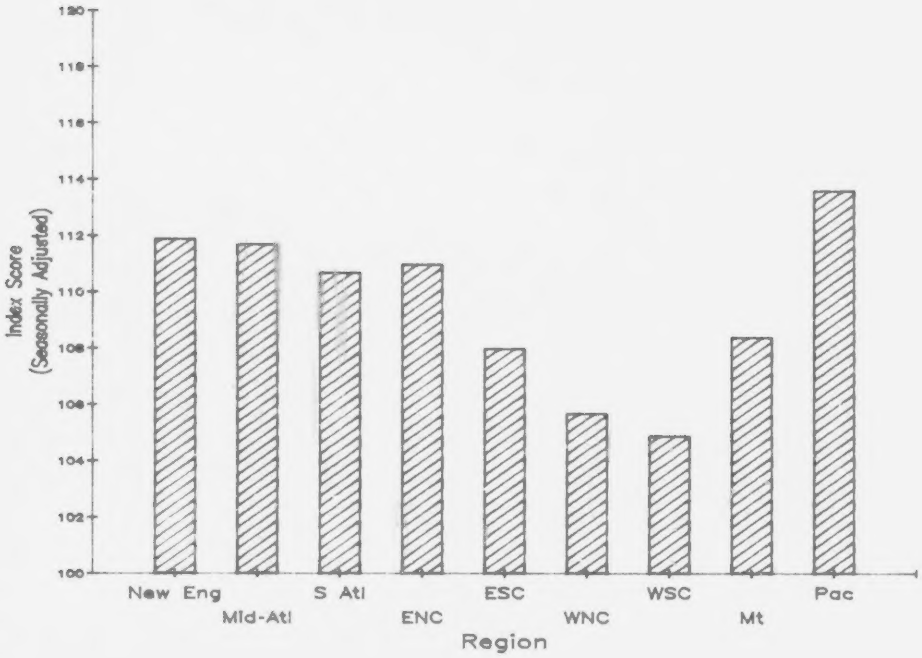
REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
(not seasonally adjusted)

Regions*	1985	1986	1987	1988			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
New England	117.0	114.9	115.3	114.4	120.7	111.5	109.8
Mid-Atlantic	110.1	114.0	108.2	113.9	117.1	111.3	107.9
South Atlantic	109.2	110.9	109.5	112.0	116.3	110.7	111.9
East North Cent.	95.1	107.6	107.0	112.3	108.6	108.6	109.3
West North Cent.	106.3	101.1	105.7	107.9	103.2	103.2	105.2
East South Cent.	101.9	106.8	103.3	107.1	109.5	109.5	107.1
West South Cent.	102.8	99.6	109.2	104.6	105.1	105.1	105.3
Mountain	102.8	101.7	105.3	106.2	107.0	107.0	108.3
Pacific	105.5	107.9	107.9	112.5	112.1	112.1	111.3

*States in each region are listed in Appendix A-2

Chart 7

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM



region's Index score remained healthy (Chart 7). But the South Atlantic region, like New England, has been losing its leading role over the last several quarters.

The economic resurgence of the Great Lakes region continues. The region's Index slipped in January from October (seasonally adjusted), but still remained above its 1977-78 average. For the last four years, the region's progress as measured by the Index has been steady, the steadiest of any region in the country.

The Index for the East South Central region has been volatile in large part due to its small size. About 100 small business owners from ther region respond to the survey each quarter. But even though quarterly movements can be confusing, the trend is clear: the region occupies a level approximating the Mountain region. It is a level between the five regions at the top and the two at the bottom.

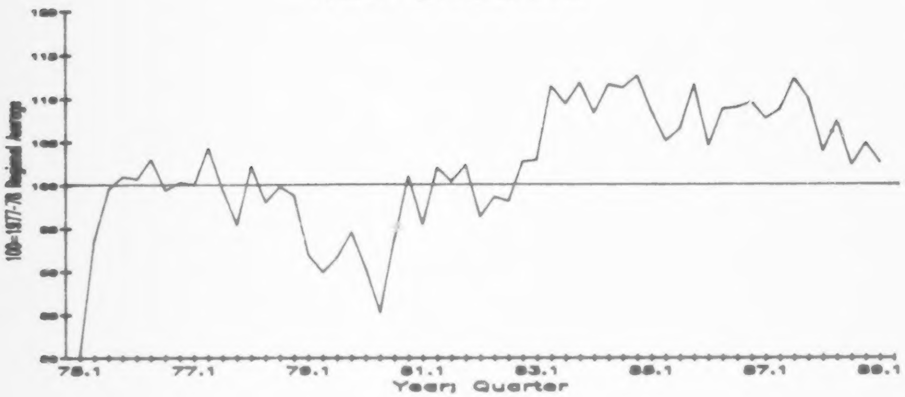
Small business owners in the West North Central region have struggled over the last 15 years like those in no other part of the country. While the fortunes of small business owners in the separate regions have generally varied since institution of the survey, they have not varied in the West North Central. The region has always been near or at the bottom. In January, only the South West Central region recorded a lower Index score.

Small business seemed to be making a swift comeback in the West South Central region about two years ago. Then, the Index took another tumble as oil, agriculture and real estate weakened again leaving the region's small business owners the nation's least optimistic. January was no different. Not only were small business owners in the region less optimistic than were those in any other (Chart 7), but they were less optimistic compared to the 1977-78 average than were those in any other region.

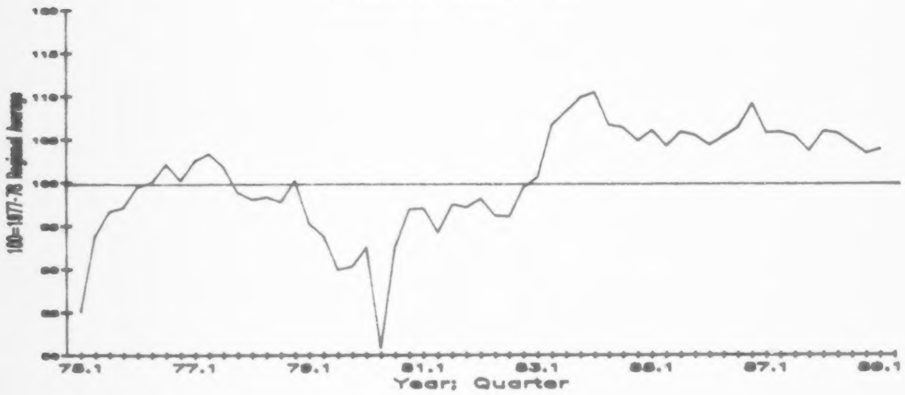
Last October's sharp rise in the Mountain region's Index was offset by January's fall. However, small businessmen and women in the Mountain area appeared to feel better about the future in January than they did throughout most of the 1986 to mid-1988 period. The region's fortunes seemed to have been reversed.

The Index of Small Business Optimism for the Pacific region was the nation's highest in January (Chart 7). However, the Pacific region's small business owners have traditionally been more optimistic than have those in other parts of the country. January's Index, therefore, was virtually identical to its 1977-78 average. Proximity to the 1977-78 average has characterized the last four years. Thus, the Pacific's emergence as the leading region for small business optimism is not so much a case of the Pacific surging to the front as it is of other regions falling back.

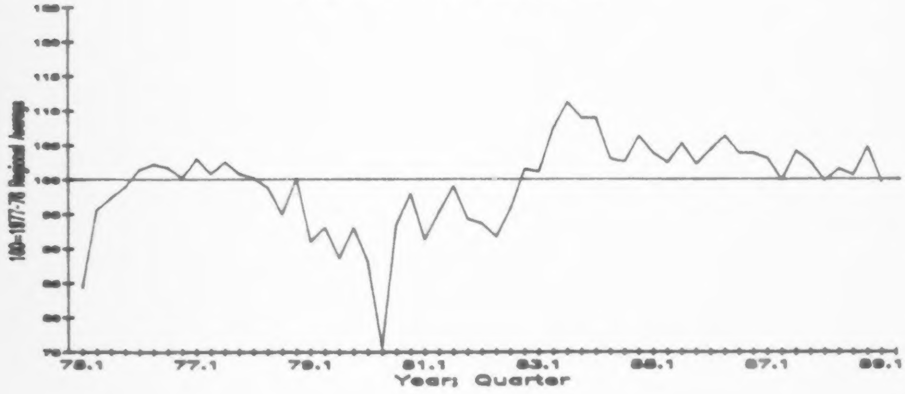
NEW ENGLAND



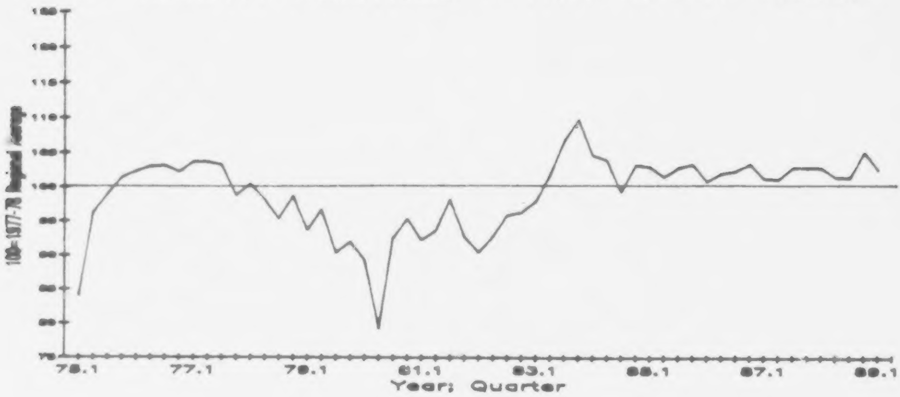
MID-ATLANTIC



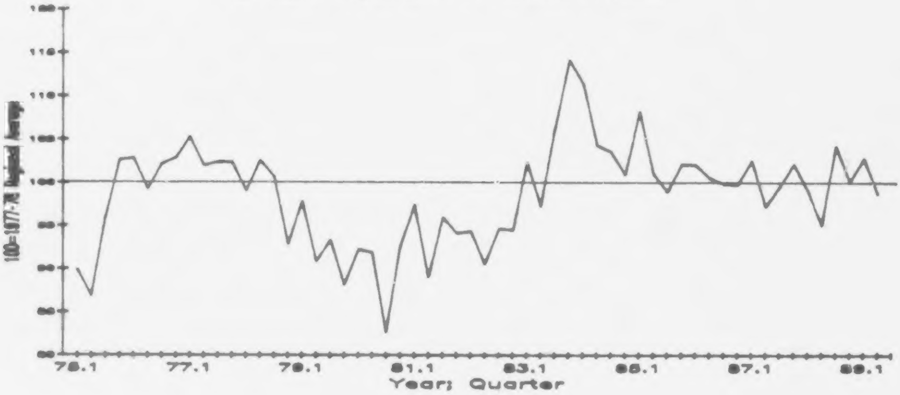
SOUTH ATLANTIC



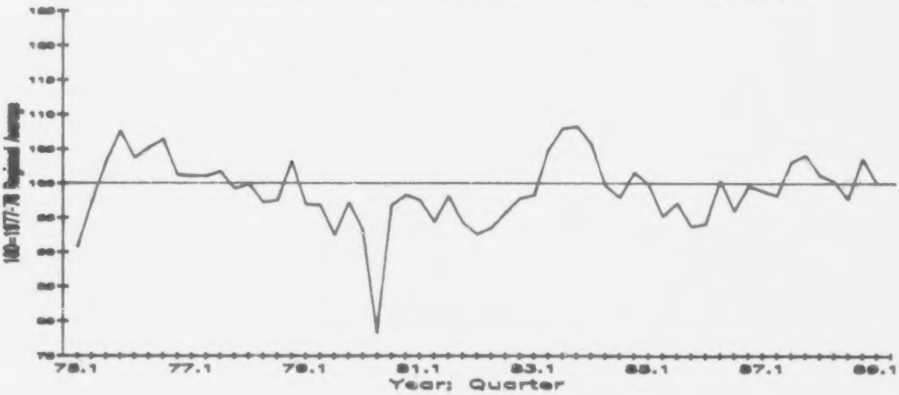
EAST NORTH CENTRAL - THE GREAT LAKES



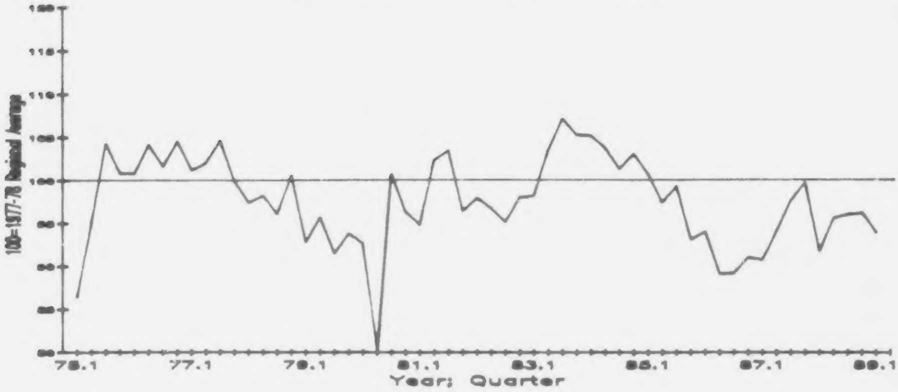
EAST SOUTH CENTRAL



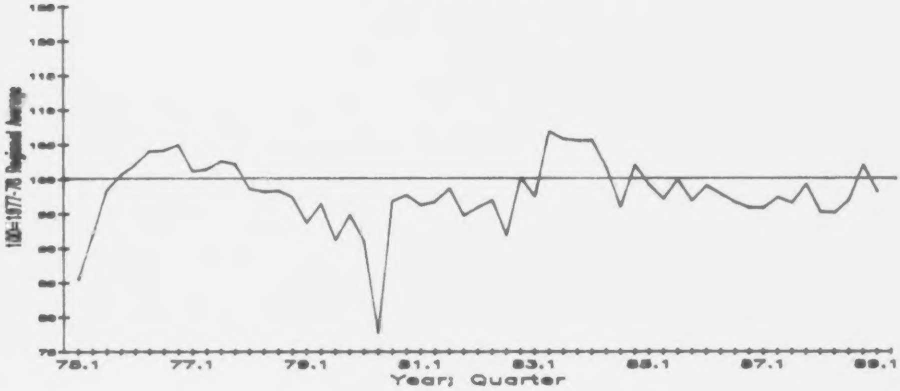
WEST NORTH CENTRAL - THE PLAINS



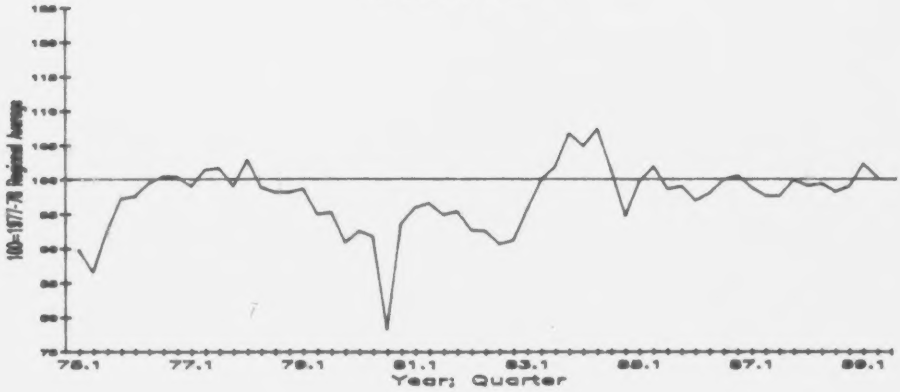
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1

DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2

DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1989
Less than $50,000	6	3	7	3	7	14	6	16	12	8
$50,000-99,999	9	5	10	2	14	13	13	17	20	12
$100,000-199,000	13	12	10	6	18	26	12	23	26	16
$200,000-349,000	14	13	10	9	15	13	15	18	18	14
$350,000-799,999	20	20	14	14	19	13	18	13	11	17
$800,000-1,499,999	16	15	22	18	12	12	18	5	6	13
$1,500,000-2,999,999	12	15	11	17	8	4	5	4	4	9
$3,000,000 or more	9	17	13	29	6	4	10	3	1	9
Not Ascertained	1	*	3	2	1	1	2	1	2	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	309	267	70	153	614	100	170	243	162	2088
Percent of Firms	15	13	3	7	29	5	8	12	8	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1989
1	5	2	6	2	10	13	11	13	11	8
2	6	5	1	8	10	16	13	13	15	10
3 - 5	27	17	20	28	34	33	39	37	39	31
6 - 9	19	20	22	17	20	12	17	16	17	18
10 - 14	14	12	13	11	10	10	3	5	9	10
15 - 19	8	9	10	10	4	1	1	5	3	6
20 - 39	11	16	13	9	6	3	5	3	1	8
40 or more	6	18	11	14	4	3	5	5	2	7
No Answer	4	1	4	1	2	9	6	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship 2 Partnership 3 Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
2 Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
7 Financial, insurance, real estate, bank, savings & loan, ***etc.***
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
10 Other (please describe) ____________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

1 Taxes
2 Inflation
3 Poor sales
4 Interest rates & financing
5 Cost of labor
6 Government regulation(s) & red tape
7 Competition from large businesses
8 Quality of labor
9 Shortage of fuels, materials or goods 3
0 Other ____________________ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

1 Yes 2 No 3 Uncertain 4

4a. Why? (Circle **ONE** answer – ***most important reason***)

1 Economic conditions
2 Sales prospects
3 Financing & interest rates
4 Cost of expansion
5 Other ____________________ (please explain) 5

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

1 Much better
2 Somewhat better
3 About the same
4 Somewhat worse
5 Much worse 6
6 Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

1 Under $12,500
2 $12,500-24,999
3 $25,000-49,999
4 $50,000-87,499
5 $87,500-199,999
6 $200,000-374,999
7 $375,000-749,999 7
8 $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

1 Much higher 2 Higher 3 About the same 4 Lower 5 Much lower 8

6b. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%-10%
3 11%-15%
4 16%-20%
5 21%-25%
6 26%-35%
7 36%-50% 9
8 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

1 Much higher 2 Higher 3 About the same 4 Lower 5 Much lower 10

7a. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%-10%
3 11%-15%
4 16%-20%
5 21%-25%
6 26%-35%
7 36%-50% 11
8 51% or more

7b If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

1 Sales volume 12
2 Labor costs
3 Cost of materials
4 Availability of materials
5 Received higher prices for your product or service
6 Financing costs
7 Usual seasonal change
8 Other ______________________
(Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

1 Go up a lot 13
2 Go up a little
3 Stay the same
4 Go down a little
5 Go down a lot
6 Don't know

9. How are your average selling prices now compared to three months ago?

1 Lower now 14
2 No difference
3 Higher now
4 Don't know

9a If ***higher or lower***, by what percent, on an average?

1 Less than 1% 15
2 1.0-1.9%
3 2.0-2.9%
4 3.0-3.9%
5 4.0-4.9%
6 5.0-7.9%
7 8.0-9.9%
8 10% or more
9 Don't know

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

1 Yes, raise prices 16
2 Yes, lower prices
3 No change
4 Don't know

10a If raise or lower, by what percent, ***on average***?

1 Less than 1% 17
2 1.0-1.9%
3 2.0-2.9%
4 3.0-3.9%
5 4.0-4.9%
6 5.0-7.9%
7 8.0-9.9%
8 10% or more
9 Don't know

11. How many employees do you have full and part-time ***including yourself***?

1 One 18
2 Two
3 3-5
4 6-9
5 10-14
6 15-19
7 20-39
8 40 or more

12. During the ***last three months,*** did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

1 Increased by ____ employee(s)
2 Decreased by ____ employee(s)
3 Stayed the same 19-21

12a If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

1 Yes
2 No 22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

1 Increase
2 Keep the same
3 Decrease 23

14. Do you have any job openings that you are ***not*** able to fill right now?

1 Yes, for skilled labor
2 Yes, for unskilled labor
3 Yes, both skilled and unskilled labor 24
4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

1 Less than one month
2 One month, but less than three months
3 Three months, but less than six months 25
4 Six months or more

15. During the last three months, did you increase or decrease your inventories?

1 Increase
2 About the same
3 Decrease
4 Not appropriate 26

15a. If increase or decrease, by approximately what percent?

1 Less than 6%
2 6%-10%
3 11%-15%
4 16%-20%
5 21%-25%
6 26%-35%
7 36%-50% 27
8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

1 Too large
2 About right
3 Too low
4 Not appropriate 28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

1 Add
2 Keep the same
3 Decrease
4 Not appropriate 29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐1 Much higher ☐3 Same ☐5 Much lower ☐7 Inapplicable, do not borrow regularly 30
☐2 Higher ☐4 Lower ☐6 Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles ☐1 Yes 36
Additional Buildings ☐1 Yes 37
Improved Buildings ☐1 Yes 38
Additional Land ☐1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐1 under $1,000 ☐4 $10,000-19,999 ☐7 $100,000-499,999 40
☐2 $1,000-4,999 ☐5 $20,000-49,999 ☐8 $500,000-999,999
☐3 $5,000-9,999 ☐6 $50,000-99,999 ☐9 $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐1 Yes ☐2 No ☐3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐1 Increase ☐2 Keep the same ☐3 Decrease ☐4 Don't know 42

21a. If Increase or Decrease, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% ☐7 Don't know 43
☐2 3-4% ☐4 7-8% ☐6 Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐1 Increased ☐2 Kept the same ☐3 Decreased 44

22a. If Increased or Decreased, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% 45
☐2 3-4% ☐4 7-8% ☐6 Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located.

☐1 A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
☐2 A small city (population over 15,000 but under 100,000 in city and immediate area)
☐3 A rural area (population under 15,000 in city and surrounding communities)

The NFIB Foundation
Suite 700, 600 Maryland Ave. S.W.
Washington, DC 20024

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QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

April 1989

Quarterly Economic Report for Small Business

April 1989

Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS
(REPORT NO. 63)

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

A healthy first quarter was not enought to stem the increasing pessimism small business owners expressed over the immediate future. While plans for the next three to six months remained strong by historical standards, confidence in factors beyond small business owner control, e.g., interest rates, dissipated. The result was sharp divisions between assessments of the past and the future, and between assessments of an individual's own prospects and those of the larger economy.

Small business conditions remained favorable throughout the first quarter. However, April's report contained clear signs of erosion from the previous three month period. Lower sales, sliding earnings, and rising interest rates, placed increasing pressure on the capacity of small business owners to realize their plans. Yet, capital expenditures continued at near record high levels. Inventory growth appeared healthy as well and left small business owners as a group with satisfactory inventory balances. One negative was weaker employment growth. But, tight labor markets in parts of the country seemed to explain as much of weaker employment growth as did decreased demand. As a result, the number of firms in April with at least one current job opening was little changed from January. Rising prices provided the quarter's worst news. The number of small business owners raising prices was the highest since the serious inflation of the 1970s and early 1980s was brought under control.

The Index of Small Business Optimism fell beneath the 100 mark (100=1978) for the first time in over two years. The outlook lead the decline. Citing financing conditions, comparatively few felt the climate good for small business expansion. Further, more thought general business conditions would get worse than get better. Credit conditions were expected to deteriorate again and sales were expected to fall (seasonally adjusted). April's strength came among factors over which the owner has control, plans to increase employment, capital expenditure and inventory expansion. While all except inventory weakened from January, they remained strong historically. Plans to raise prices were less frequent in April than January, but the decline was seasonal and the greater size of planned increases suggested some acceleration in the inflation rate.

Outlook

The small business outlook continued to decline in April. While recent quarterly outlook data have held out the possibility of a reversal in the outlook's general direction, April's figures put the small business outlook at its lowest ebb (seasonally adjusted) since the 1980 recession. Overall economic conditions and interest rates fed the rising pessimism.

Just 18 percent believed that general business conditions would improve over the next three to six months compared to 21 percent with the opposite view (Table 1). With the sole exception of October, 1988, the absolute difference between the percent holding positive and negative views was the largest since April, 1980. Seasonally adjusted, not even that one exception occurred.

Since 1985, over 50 percent of respondents have consistently believed that general business conditions would not change in the next three to six months. Their mostly accurate characterization of conditions is notable because the stability projected in such responses could be found in only three other quarters (April, July, and October, 1977) in the 16 year history of the survey. April's data again showed that a majority felt little or no change would occur (Table 1). Thus, the general business conditions data, usually measured as percent favorable minus percent unfavorable, probably provide a more negative perspective than is the actual case.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED	1986	1987	1988	1988		1989	
CONDITIONS	APR	APR	APR	JUL	OCT	JAN	APR
Much Better	3	2	1	1	2	2	1
Better	28	21	21	15	17	20	17
Same	51	55	58	54	53	58	54
Worse	10	12	12	18	15	11	19
Much Worse	1	2	1	3	1	2	2
Don't Know	6	6	7	8	11	7	7
No Answer	1	2	*	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The absolute measure of the small business outlook - the climate for small business expansion - fell on a seasonally adjusted basis. Just 16 percent felt it a good time for small business expansion (Table 2), the lowest seasonally adjusted number since the 1981-82 recession.

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Yes	29	20	21	19	16	17	16
No	41	43	41	43	47	44	48
Uncertain	29	35	37	37	37	38	35
No Answer	1	2	1	1	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Economic conditions and financing and interest rates provided the primary reasons for those with negative and uncertain views of the climate for small business expansion (Chart 1). The significant development in April was the increase in those pointing to financing and interest rates. Since January the number with both negative and uncertain views increased their mention of financing and interest rates by nine percentage points. In the last year the numbers have risen by almost twenty percentage points among each view. In fact, just one year ago, more than twice the number with a positive view of the climate for small business expansion cited financing and interest rates as the reason for their favorable view as the number with either a negative or uncertain view who cited the reason for theirs. The nearly two percentage point increase in interest rates paid by small business owners has undoubtedly contributed to the outlook's swing.

The number with a negative view who noted expansion costs as the primary reason for their view actually fell between January and April, reenforcing the view that small business owners do not yet see rising prices, i.e., inflation, as a matter of major concern (see, Single Most Important Problem).

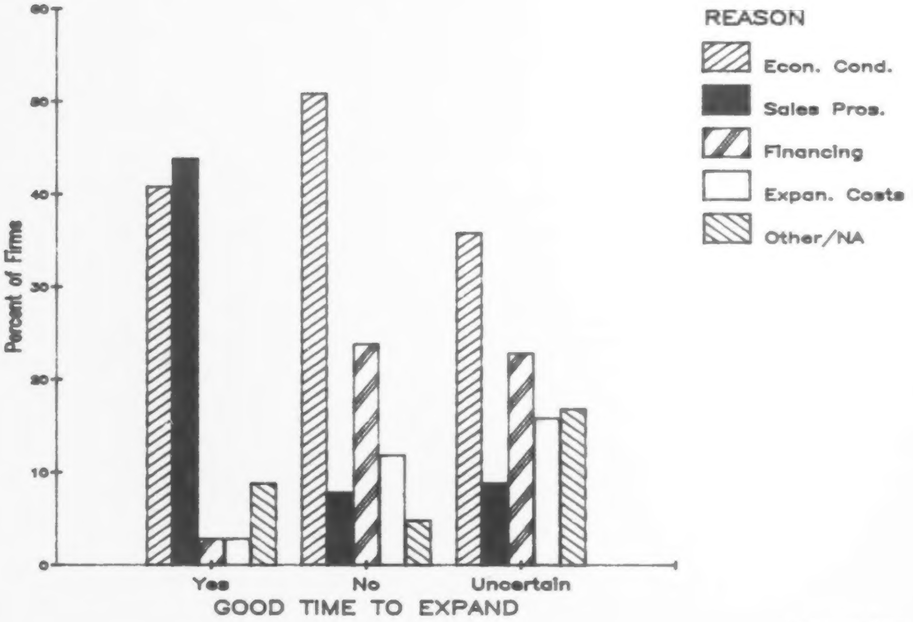
Credit Conditions

Interest rates paid on short-term loans by small business owners rose by 600 basis points between January and April (Table 3). The average rate paid was 12.6% in the first quarter compared to 10.8% just one year ago. Rates have moved relentlessly upward over the year and now appear high enough to dampen the boom in small business capital expenditures (see, Capital Expenditures). With the simultaneous decline in the Earning Index (see, Earnings) and with healthy, but unspectacular sales, small business owners cannot continue making large, new capital outlaysfor any prolonged period.

Rising rates were felt by small business borrowers. Almost 90 percent of them reported higher interest rates in the first quarter

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Source: NFIB

than in the fourth (Table 4). Almost 20 percent reported interest rates "Much Higher."

The number of frequent borrowers rose three percentage points over the last three months to 41 percent. The increase probably does not represent an increase in borrowing for capital investment. The frequency of small business borrowing is commonly tied to the inflation rate and April's reported increase corresponds with acceleration in the rate of price increases.

Higher rates appear to have also made loans more difficult to obtain. Eleven (11) percent indicated that loans were harder to get in the first quarter than in the fourth (Table 5). The last time 11 percent reported loans harder to obtain was in April, 1982.

While a majority of borrowers believed financing conditions would not change in the next three months, almost a third anticipated that they would continue to deteriorate (Table 6). April's data represented a 50 percent increase in the negative

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1986	1987	1988	1988		1989	
RATE	APR	APR	APR	JUL	OCT	JAN	APR
Under 10%	3	11	10	4	3	2	4
10%-12%	30	31	33	34	38	36	29
13%-15%	17	8	6	7	8	10	13
16% or More	2	3	2	2	2	3	3
Prime +1	25	25	25	29	27	28	25
Prime +2	19	17	21	20	18	18	21
Prime +3 or More	4	5	3	4	4	3	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	12.0%	10.6%	10.8%	11.2%	11.6%	12.0%	12.6%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST	1986	1987	1988	1988		1989	
RATES	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	*	*	1	*	1	2	7
Higher	1	5	6	17	22	25	29
Same	11	22	23	15	13	9	4
Lower	29	9	5	1	1	1	*
Much Lower	1	*	*	*	*	*	*
Don't Know	*	2	1	2	1	1	1
Inapplicable (borrow infrequently; no answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

assessment. Prior to the current quarter, the number expressing a pessimistic view remained reasonably stable over the last few years despite fluctuations in interest rates. Thus, April's jump represented a departure from the past and demonstrated the concern small business owners are feeling about credit conditions.

Prices

The rate of price increases accelerated in the first quarter. While a portion of the acceleration can be attributed to

Table 5

AVAILABILITY OF LOANS COMPARED TO PRIOR THREE MONTHS

LOAN	1986	1987	1988	1988		1989	
AVAILABILITY	APR	APR	APR	JUL	OCT	JAN	APR
Easier	4	2	2	1	1	1	1
Same	28	27	25	25	28	27	27
Harder	9	7	7	7	7	8	11
Don't Know	1	2	2	2	2	2	2
Inapplicable (Don't Borrow; No Answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER COMPARED TO THE CURRENT QUARTER

CREDIT	1986	1987	1988	1988		1989	
EXPECTATIONS	APR	APR	APR	JUL	OCT	JAN	APR
Easier	5	2	2	2	2	1	1
Same	26	25	22	22	24	24	23
Harder	9	8	8	8	9	9	13
Don't Know	2	3	2	3	3	4	4
Inapplicable (Don't Borrow; No Answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

seasonality, most of the new inflationary burst bore no seasonal relationship. Thirty-six (36) percent, the most since July, 1981, reported higher average selling prices in the first quarter than in the fourth (Table 7). April's figure represented a seven percentage point increase from January. Thus, the racheting motion which has characterized the annual rise in the frequency of selling price increases over the last two years has appeared for the third consecutive year.

The size of reported price increases also crept higher in the first quarter. Price increases averaged about five percent in the first quarter compared to about 4.6 in the fourth. Thus, price hikes appeared not only to be broadening, but also to be increasing in size.

The most frequent increases were reported among wholesalers (52%) and retailers (43%). The professional services also produced

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Lower Now	17	12	10	9	8	8	9
No Difference	59	57	57	58	59	58	52
Higher Now	22	24	30	29	29	29	36
Less than 1%	*	1	*	1	*	1	*
1.0-1.9%	2	3	4	3	4	4	4
2.0-2.9%	4	5	5	5	4	5	5
3.0-3.9%	3	3	4	3	5	4	5
4.0-4.9%	3	2	3	4	4	4	5
5.0-7.9%	5	5	8	6	6	6	9
8.0-9.9%	1	1	2	1	1	1	2
10% or More	3	3	3	5	4	3	4
No Answer	1	1	1	1	1	1	2
No Answer	2	7	3	4	4	5	3
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

relatively frequent increases (40%). However, fewer than one-third in the production industries and most of the services raised selling prices in the first quarter. These data suggest that the comparatively large price rises in imported products (due on a lagged basis to the dollar's decline) have found their way into the small business distribution network. With the dollar stronger again and compensation increases still reasonable (see, Compensation), there is reason to believe that the frequency of small business price increases may stabilize for awhile.

Plans to raise prices fell. Twenty-eight (28) planned to raise average selling prices in the second quarter, two percentage points fewer than reported them three months ago (Table 8). However, price plans have fallen short of eventual price increases over the last two years (Chart 2). It is, therefore, probable that the frequency of price increase will decline in the next three months compared to first quarter levels, but only by two or three percentage points.

Compensation

Compensation increases were not a major factor in the acceleration of small business prices. While small business compensation has risen modestly in the last two to three years, it has not paralleled the general rise in selling prices. Nor, is there any indication that compensation increases will force up selling prices in the immediate future. Plans to raise compensation were relatively

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED	1986	1987	1988	1988		1989	
PRICE CHANGES	APR	APR	APR	JUL	OCT	JAN	APR
Lower	5	3	3	2	3	2	3
No Change	60	54	54	53	56	49	51
Increase	19	19	24	26	25	30	28
Less than 1%	*	1	*	*	*	*	*
1.0-1.9%	2	2	2	2	3	3	3
2.0-2.9%	3	3	3	3	4	4	5
3.0-3.9%	2	3	4	4	4	4	4
4.0-4.9%	2	5	3	4	3	4	4
5.0-7.9%	5	1	7	7	7	9	7
8.0-9.9%	1	2	1	2	1	1	1
10% or More	3	1	3	3	3	3	3
Don't Know	1	1	1	2	*	3	1
Don't Know	14	15	13	14	12	13	14
No Answer	2	9	6	5	4	6	4
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

few. Even in regions with tight labor markets, small business owners appeared only a little more inclined to raise compensation than those in labor surplus markets.

Twenty-six (26) percent reported average compensation during the first quarter (Table 9). April's figure represented a small, seasonally inspired increase from the prior quarter. The total increase was estimated at 1.5 percent per firm, a 0.1 percent rise from January's number.

The proportion of small business owners raising overall average compensation will not change appreciably in the second quarter. Twenty-two (22) percent held plans to raise compensation in the next three months (Table 10). The current level of plans is characteristic of those reported throughout 1988, but a few percentage points higher than characteristic of the few years prior.

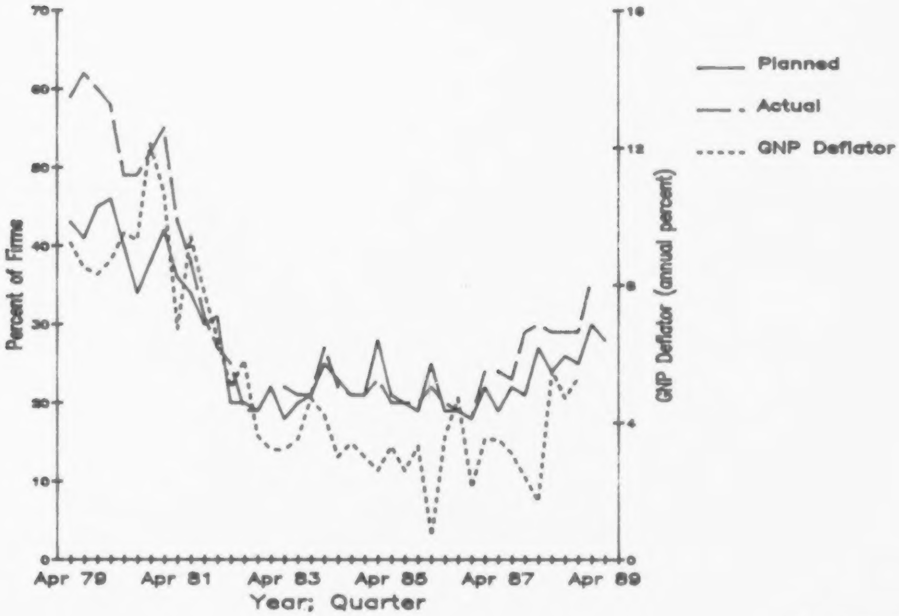
Sales

Small business sales fell for the second consecutive quarter. However, they remained somewhat better than their historic average. Twenty-nine (29) percent reported higher sales in the first quarter than in the fourth quarter of 1988 compared to 30 percent who reported them lower (Table 11). Both numbers were comparable to those recorded in each of the last three Aprils. The seasonally-adjusted Index of Small Business Sales fell from January's level (Chart 3).

Fifty-six (56) percent anticipated real sales to be higher in the second quarter than in the first compared to 17 percent who anticipated them lower (Table 12). However, on a seasonally adjusted basis, sales expectations for the coming three months weakened. The change was not large, but its continued downward direction suggested that small business sales would not support a greater level of activity in the coming months.

Chart 2

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Source: NFIB

Earnings

Small business earnings fell in the first quarter. Just 19 percent reported earnings higher in the first quarter than in the fourth and 37 percent reported them lower (Table 13). The seasonally-adjusted Index of Small Business Earnings recorded its lowest level since January, 1987 (Chart 3).

Lower volume and increased factor costs continued to be the two primary reasons for earnings declines (Table 14). But as the

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION	1986	1987	1988	1988		1989	
CHANGE	APR	APR	APR	JUL	OCT	JAN	APR
Increased	24	24	24	25	26	24	26
1-2%	4	2	3	3	3	3	3
3-4%	6	7	8	7	8	7	7
5-6%	7	7	7	8	7	7	7
7-8%	3	2	2	3	3	3	3
9-10%	2	3	2	2	2	2	3
Over 10%	1	2	1	2	2	5	2
No Answer	1	*	1	*	1	*	1
Same	68	69	69	69	67	69	68
Decreased	2	2	1	1	1	1	1
No Answer	6	6	6	5	6	6	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.6%	5.9%	5.6%	5.9%	5.8%	5.9%	5.9%
All Firms	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.5%

* Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION	1986	1987	1988	1988		1989	
CHANGE	APR	APR	APR	JUL	OCT	JAN	APR
Increase	19	18	20	18	21	24	22
1-2%	2	2	2	1	2	2	2
3-4%	6	6	6	6	7	7	6
5-6%	6	6	6	6	7	9	7
7-8%	1	1	2	1	1	2	2
9-10%	1	1	2	2	2	2	2
Over 10%	1	1	1	1	1	1	1
Don't Know	1	*	1	1	1	1	1
No Answer	1	1	*	*	*	*	1
Same	66	67	67	67	66	63	66
Decrease	2	1	1	1	1	1	*
Don't Know	10	10	10	11	10	9	10
No Answer	3	4	2	3	2	3	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS
(continued)

	1986	1987	1988	1988		1989	
AVERAGE INCREASE	APR	APR	APR	JUL	OCT	JAN	APR
Firms Increasing	5.4%	5.5%	5.5%	5.8%	5.4%	5.9%	5.8%
All Firms	1.0%	1.0%	1.3%	1.0%	1.1%	1.4%	1.3%

*Less than 0.5%

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1986	1987	1988	1988		1989	
SALES VOLUME	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	3	3	3	4	3	4	3
Higher	26	27	27	36	32	29	26
About the Same	38	37	41	38	45	40	40
Lower	26	23	24	18	17	22	25
Much Lower	6	6	4	3	2	3	5
No Answer	1	4	1	1	1	2	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1986	1987	1988	1988		1989	
REAL SALES	APR	APR	APR	JUL	OCT	JAN	APR
Go Up A Lot	13	13	13	8	9	8	11
Go Up A Little	45	45	47	39	34	36	45
Stay the Same	23	24	23	30	26	29	22
Go Down a Little	11	11	11	15	20	18	14
Go Down a Lot	3	2	2	3	6	4	3
Don't Know	4	3	3	4	3	3	3
No Answer	1	2	1	1	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Much Higher	2	2	1	2	2	2	1
Higher	18	18	19	25	22	21	18
Same	41	41	43	41	46	43	41
Lower	30	27	29	25	25	27	32
Much Lower	7	7	5	4	4	4	5
No Answer	2	5	3	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Chart 3

INDICES OF SMALL BUSINESS SALES AND EARNINGS

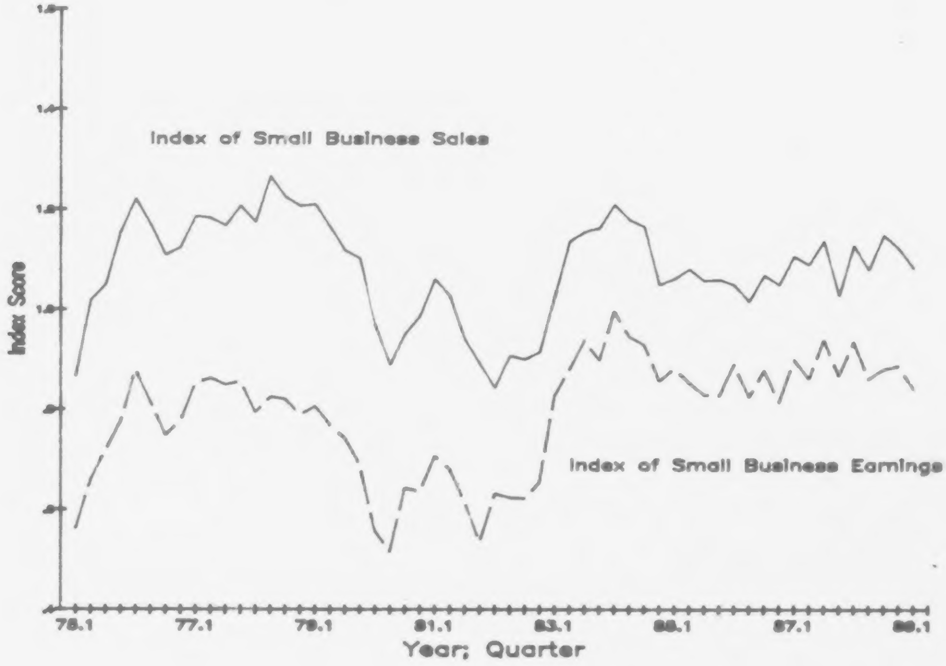


Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH	1986	1987	1988	1988		1989	
NET EARNINGS	APR	APR	APR	JUL	OCT	JAN	APR
Sales Volume	59	60	60	59	58	60	59
Higher Prices	10	10	10	7	11	9	11
Factor Costs*	6	8	5	1	6	6	7
Seasonality	15	14	16	22	19	18	12
Other; NA	10	8	9	11	6	8	11
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER	1986	1987	1988	1988		1989	
NET EARNINGS	APR	APR	APR	JUL	OCT	JAN	APR
Sales Volume	47	43	38	41	39	40	39
Factor Costs*	14	16	23	26	28	21	25
Seasonality	19	26	23	13	17	24	20
Other; NA	20	15	16	20	15	15	16
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

proportion citing factor costs increases, the proportion citing volume declines. Three years ago 47 percent of those with lower earnings attributed them to volume; this April, the figure was 39 percent. In contrast, three years ago 14 percent attributed earnings declines to increased factor costs; this April, the figure was 25 percent. Rising materials costs was the most frequently mentioned factor cost. It was offered as the primary reason for lower earnings about twice as frequently as was either rising labor costs or rising financing costs.

The continued earnings decline experienced in the first quarter is significant. Survey record levels of capital expenditures, inventory build-ups, and new employment have been largely financed by earnings during this expansion. Plans to make additional capital expenditures, increase employment and expand inventories, though waning from record or near-record levels, remained strong in April. Declining earnings make internal financing of these activities less practical. Higher interest rates makes debt a less viable substitute. Thus, the ability of small business to continue expansionary activity - at least at its current level - is threatened.

Employment

The tempo of job creation in operating small firms slowed in the first quarter. However, the number of job vacancies in April remained at a very high level historically and second quarter employment plans suggested another large increase in the number of people working. Varying regional employment conditions complicated the employment outlook. Job openings and plans were highest in regions where labor markets are tight and vice-versa. As a result, small business employment plans may not be realized.

Fourteen (14) percent reported increasing net employment in the last three months compared to 13 percent who reported net declines (Table 15). Most increases and decreases involved non-seasonal positions. The greater size in the number of employees per firm losing employees negated the positive percentage increasing employment. The result was a net decline (seasonally unadjusted) for the quarter. However, the decline was small (-0.3) and did not account for job creation affect of businesses moving in and out of the market.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT	1986	1987	1988	1988		1989	
CHANGE	APR	APR	APR	JUL	OCT	JAN	APR
Increased	16	13	15	20	16	14	14
Seasonal	5	5	6	10	5	5	5
Non-seasonal	11	8	9	10	11	9	9
Decreased	15	13	13	10	13	13	13
Seasonal	5	6	4	2	5	6	4
Non-seasonal	10	7	9	8	8	7	9
No Change	69	65	69	68	69	70	72
No Answer	*	9	3	2	2	3	1
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.6	3.8	3.9	3.9	3.6	3.9	3/6
Employees decreased per firm decreasing	4.3	4.2	4.0	3.3	3.7	3.7	4.2
Average net change per all firms	-.07	-.06	+.06	+.44	+.10	+.05	-4.3

*Less than 0.5%

Twenty-three (23) percent reported one or more current job opening. April's figure represented a one percentage point decline from January, but the level over the last six quarters has been comparatively stable. With current job openings inversely related to unemployment, the data indicated some upward pressure on the unemployment rate. However, unemployment will probably change little in the next three months.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
Yes	16	19	23	21	25	24	23
Skilled Labor	11	12	14	15	16	15	15
Unskilled Labor	2	3	4	3	4	5	4
Both	3	4	4	3	5	4	4
No	83	80	77	78	74	75	76
No Answer	1	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Current job openings varied considerably by region (Chart 4). Over 35 percent of respondents located in New England reported one or more job openings. In contrast, less than 15 percent in the West South Central region reported one. The result was a spotty labor demand with owners in some regions fighting for employees and owners in others having a selection. However, the data did not suggest higher compensation growth in regions where shortages are particularly severe (see, Compensation).

Plans to increase the labor force fell in April on a seasonally-adjusted basis. Yet, the tumble was from one of the highest points in the survey's history. These data suggested that while job growth may slow, it will continue at healthy levels. Twenty-three (23) percent expected to increase the size of their labor force in the next three months; five percent expected to decrease it (Table 17).

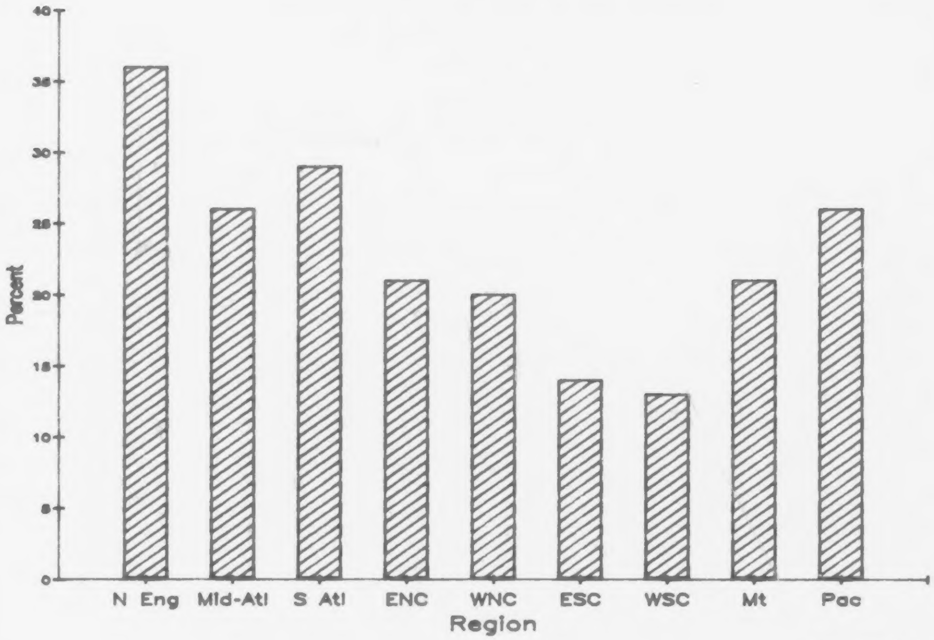
The curious industry was construction. Its second quarter plans are normally much more positive than are those of other industries for obvious seasonal reasons. But with interest rates rising and the effects of the real estate portions of the 1986 Tax Reform Act increasingly evident, most would expect construction to take on fewer employees than normal. Instead, 41 percent of contractors planned to increase their net labor forces, the industry's highest since 1978. The reason for the large jump was not clear.

Inventory

Small business inventories appeared under control in April. Inventory replacement modestly lagged the historic pattern in the first quarter. Current balances were generally satisfactory. And, while greater than usual build-ups were anticipated in the next three months, they were not sufficiently large to raise questions.

Chart 4

CURRENT JOB OPENINGS BY REGION



Source: NFIB

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1986 APR	1987 APR	1988 APR	1988 JUL	OCT	1989 JAN	APR
Increase	23	22	25	16	18	20	23
Keep the Same	69	71	68	73	69	69	69
Decrease	7	5	5	9	11	7	5
No Answer	1	2	2	2	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%

Twenty (20) percent built net inventories during the first quarter; 17 percent decreased them (Table 18). Though slower than the first quarter one year ago, April's net increase (percent increasing minus percent decreasing) was in line with the same quarter in 1986 and 1987. Net accumulations left most owners satisfied with current balances. Eleven (11) percent reported their inventories too large and ten percent reported them too small (Table 19). Since sales expectations in April were lower on a seasonally-adjusted basis (see, Sales), satisfaction with current inventory levels suggested modest need for additional inventories in the next three months.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increase	20	21	21	21	20	17	20
Same	41	43	44	45	46	42	43
Decrease	18	17	15	13	14	19	17
Not Applicable	19	17	18	19	18	19	19
No Answer	2	2	2	2	2	3	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Too Large	13	11	12	12	10	12	11
About Right	55	58	56	54	58	55	56
Too Low	10	10	10	10	10	10	10
Not Applicable	19	19	21	20	20	21	21
No Answer	3	2	1	2	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

Inventory plans appeared somewhat more optimistic than the difference between current inventory satisfaction and expected sales seemed to warrant. Twenty-one (21) percent planned net additions to inventory over the next three months and 12 percent planned net reductions (Table 19). These represented the strongest April inventory plans since 1984. However, they were not a sharp departure from the levels experienced in the last few years.

Capital Expenditures

Small business has made significant capital outlays in the last six to nine months. However, it appears that higher interest rates (see, Credit Conditions) and lower earnings (see, Earnings) have conspired to reduce future outlays.

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21). Aside from January, it was the largest percent making capital expenditures since 1985. The composition of expenditures shifted again. In April, they more closely reflected their historic distribution than in either January or October. The number reporting an outlay for equipment/vehicles (46%) settled back while the number reporting an outlay for improved buildings (16%) rose.

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
Add	19	20	20	16	17	22	21
No Change	45	47	44	45	44	43	44
Decrease	14	13	14	15	17	12	12
Not Applicable	19	18	19	21	20	20	20
No Answer	3	3	3	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 21

PERCENT MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
All Types+	56%	53%	55%	56%	55%	57%	57%
Equipment/ Vehicles	45	41	45	44	44	49	46
Add Buildings	7	7	6	7	7	7	8
Improved Buildings	15	14	16	16	18	14	16
Land	4	4	3	3	4	4	4

+Percent of firms making one or more capital expenditures

The size of the average expenditure rose. Twenty-four (24) percent involved $50,000 or more (Table 22). Usually fewer than 20 percent make expenditures of that size.

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Under $1	5	8	5	8	7	6	6
$1 - 4	22	24	19	20	20	22	19
$5 - 9	13	14	15	14	13	13	16
$10 - 19	21	19	22	22	21	22	17
$20 - 49	18	15	19	17	17	18	18
$50 - 99	8	10	9	9	11	9	10
$100 - 499	10	9	8	8	8	8	11
$500 - 999	1	2	1	2	2	1	2
$1,000 or More	1	1	1	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

After two quarters of survey record highs (seasonally-adjusted), plans to make capital expenditures in the next three to six months fell abruptly in April. Still, the 33 percent reporting capital expenditure plans was healthy by historical standards and capital expenditures should continue at a brisk pace (Table 23). The primary reasons for reduced plans rested with interest rates and earnings. However, weakening sales expectations and rising costs may have also played a role.

Single Most Important Problem

"Taxes" once again was most frequently cited as the single most important problem of small business (Table 24). Twenty-two (22) percent noted "Taxes," the same number as in January. Not since October, 1984, has any other problem been cited with greater frequency than has "Taxes."

Government Regulation(s)/Red Tape was cited with second greatest frequency (16 percent). The problems position has not changed in over a year.

"Interest Rates & Financing" received the third most frequent response. Reflecting higher interest rates and the increased cost of financing business activity, the proportion mentioning "Interest Rates & Financing" as the single most important problem has more than doubled since July. Still, the 11 percent singling out the interest rate problem in April was a far cry from the 26 percent noting it as recently as July, 1984.

Table 23

EXPECTED CAPITAL EXPENDITURES IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
Yes	33	32	33	29	34	36	33
No	52	52	51	57	50	48	52
Don't Know	12	12	12	11	11	13	11
No Answer	3	4	4	3	5	3	4
Total	100%	100%	100%	100%	100%	100%	100%

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High		Prior Low		1988				1989			
					JUL		OCT		JAN		APR	
	Date	%	Date	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	4/88+	25	10/74	8	1	25	1	23	1	22	1	22
Inflation	10/74	41	10/87+	2	8	5	8	2	8	3	8	4
Poor Sales	10/82	23	1/75+	1	3	11	4	11	4	10	4	10
Interest Rates & Financing	4/82+	37	7/77	4	7	5	6	7	6	9	3	11
Cost of Labor	7/77	9	7/82	2	6	6	7	6	7	5	7	7
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	17	2	14	2	16	2	16
Competition from Large Business	10/76	13	4/80+	4	3	11	4	11	3	12	5	9
Quality of Labor	10/88+	12	1/83+	3	5	10	3	12	4	10	5	9
Shortage of Fuel Material, Goods	1/74	23	1/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	14	-	13	-	12
Total					-	100	-	100	-	100	-	100

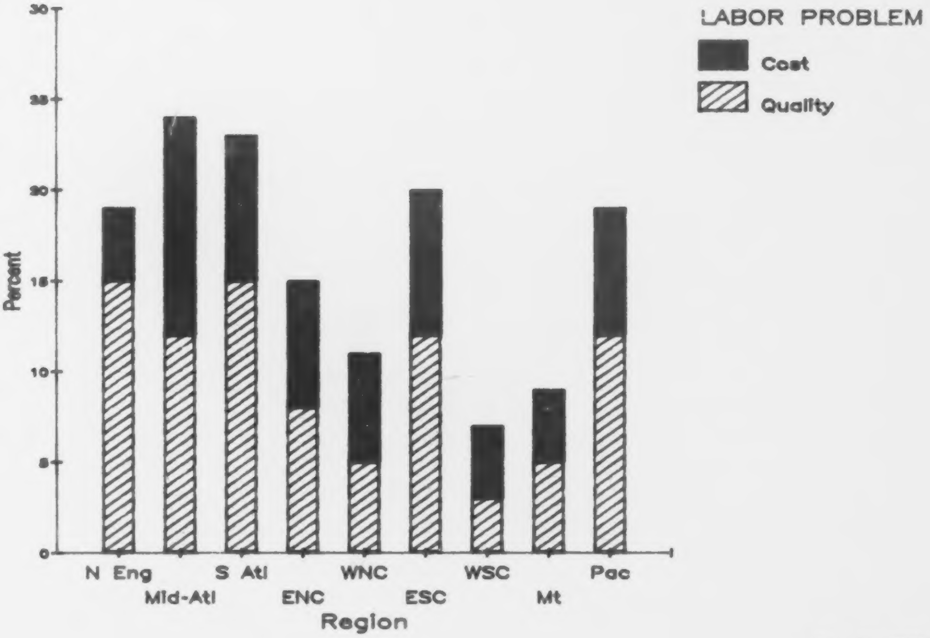
* Less than 0.5%
+ Most recent

Despite the evidence of accelerated inflation reported earlier (see, Prices), small business owners did not yet appear worried about it. Just three percent cited "Inflation" as their single most important problem, a figure that has not changed appreciably since the serious inflation of the 1970s and early 1980s was brought under control. The lack of relationship between the accelerating frequency of price increases and the stability of "Inflation" as the single most important problem suggests that inflation is not yet pinching small business owners. This is not unexpected. Inflation appears to affect small businesses most adversely when the levels are high and when they begin to decline.

Labor-related problems, i.e., "Cost of Labor" and "Quality of Labor," were concentrated in certain parts of the country (Chart 5). Small business owners in the Mid-Atlantic, South Atlantic and East South Central states were most likely to cite a labor problem as their single most important. Those in the West South Central and the Mountain states were least likely. Conditions in the New England states more closely approximated the former than the latter. Nonetheless, the comparative decline in the importance of labor problems among New England small businessmen and women represented a significant change from the past few years.

Chart 5

LABOR RELATED PROBLEMS BY REGION



Source: NFIB

Index of Small Business Optimism

The Index of Small Business Optimism tumbled in April and ended matching a post-recession low (Chart 6). The Index slumped from January's 102.8 to less than 100 (100=1978) for the first time in 10 quarters. April's level was 99.5 (Table 25). As a result, small business forecast a 2.2 percent (annualized rate) real growth in the GNP for the second quarter, down from the 4.4 percent forecast for the first.

Most of the Index's decline was attributable to the "General Expectations" component. Small business owners were wondering how much longer the current expansion will last. (See, Outlook.) Yet, the twin effects of lower earnings and higher interest rates appeared to have little effect on "Spending Plans."

July's Index should help provide a clear picture of the economy's direction. While the drop in the Index between January and April is large, similar drops have occurred without a recession ensuing. A second sharp decline could point to the first recession in over six years. However, small business activity appeared too strong to worry about recession yet and July's report should confirm that.

Table 25

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX	1986	1987	1988	1988		1989	
COMPONENTS	APR	APR	APR	JUL	OCT	JAN	APR
General Expectations[1]	112.3	117.0	117.5	109.3	107.3	110.5	110.3
Current Status[2]	98.7	101.0	101.7	105.7	106.3	104.3	101.3
Spending Plans[3]	117.7	119.0	119.7	113.0	113.7	119.7	120.0
Index*	113.8	112.8	113.4	109.3	103.7	111.4	110.5
Index (1978=100)+	102.6	101.7	102.3	100.5	102.9	102.8	99.5

*Index numbers +Seasonally Adjusted

[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions

[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings

[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

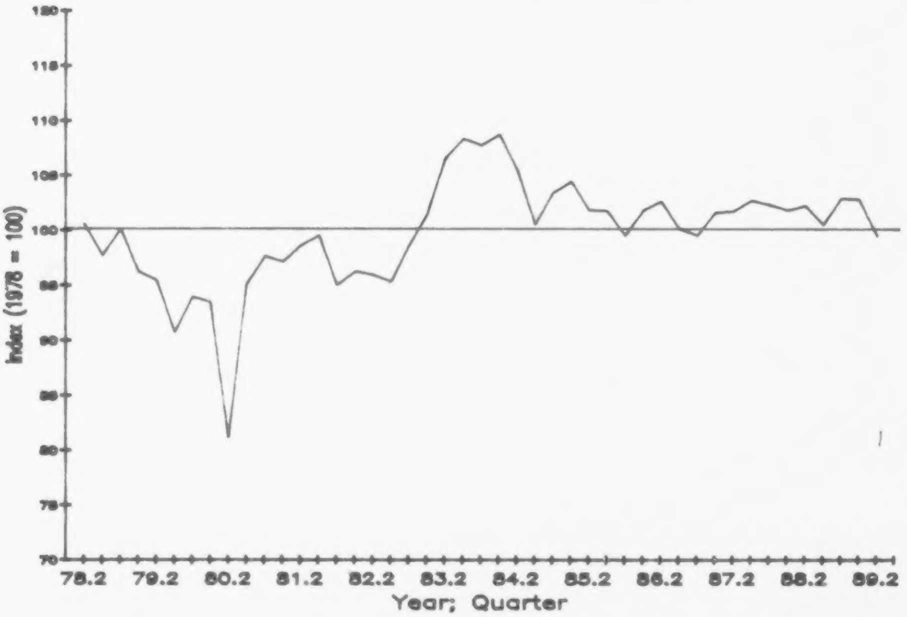
Regional Conditions

All but two regions produced lower Index levels in April than in January (Table 26). The West South Central region alone bucked the trend. Its Index rose a modest one percent. The second "nonloser," the Mountain region, produced an Index virtually unchanged from prior three months. Thus, even in regions where the Index rose, the gain was small.

In the seven regions where the Index fell, the declines tended to be larger. The most sizeable loss occurred in New England where the Index dropped by six percent. The loss sent its Index compared to its 1977-78 level below 100 for the first time since 1982 (see, Chart - New England). The small number of respondents from the region (n=78) offers a comparatively large margin for error which could affect the quarter's outcome. Nevertheless, April's data is reasonably consistent with data from prior quarters and suggests that the relative position of small business in New England is transforming adversely.

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



Source: NFIB

Small business optimism experienced its second greatest tumble in the Mid-Atlantic region. The region's Index fell five percent, slightly more than it fell in the erratic East South Central region (n=76). The East South Central provided the lowest Index in April of all nine regions.

Throughout most of the 1980s small business owners along the East coast have provided the nation's highest Index readings. With New England and the Mid-Atlantic regions witnessing deterioration in their relative positions, the South Atlantic region remains the East's most vibrant area. Though the region's Index fell three percent between January and April, it remained among the leaders.

While the Index of the Great Lakes (East North Central) region also declined over the last three months, small business conditions in the area have undoubtedly improved over the decade. In fact, the region's April Index was the nation's best when compared to the region's 1977-1978 performance (see, Chart - The Great Lakes). Its absolute level in April was third highest in the country.

Table 26

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
(Seasonally Adjusted)

Regions*	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
New England	118.6	118.5	117.1	111.5	114.2	111.9	105.4
Mid-Atlantic	113.3	113.9	113.6	112.4	111.1	111.7	105.9
South Atlantic	118.0	111.0	112.8	111.8	116.4	110.7	107.3
East North Cent.	110.5	109.4	109.8	109.7	113.7	111.0	108.3
West North Cent.	106.0	103.7	105.9	103.2	109.4	105.7	103.3
East South Cent.	109.2	108.9	114.0	109.5	112.5	108.0	103.1
West South Cent.	99.6	105.2	106.8	107.2	107.4	104.9	106.1
Mountain	108.0	107.4	105.0	107.0	112.6	108.4	108.5
Pacific	113.1	110.5	111.2	112.1	115.8	113.6	109.4

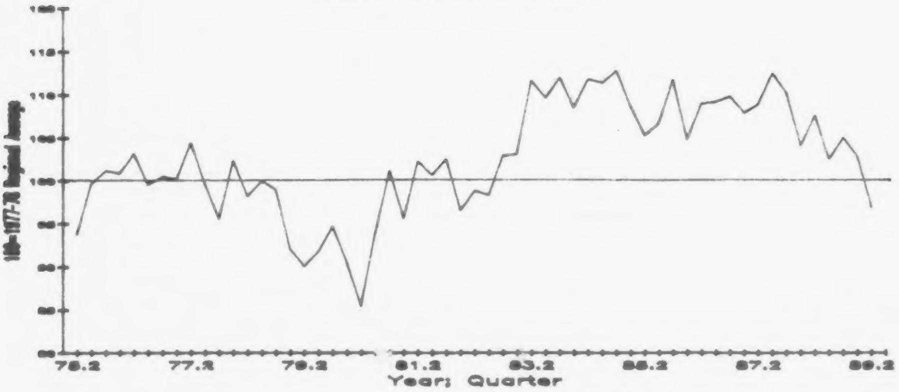
*States in each region are listed in Appendix A-2

Too much can be inferred from the relative changes experienced by New England, the Mid-Atlantic and the Great Lakes regions. Because no change from a relatively high level is equivalent in Index calculation to no change from a relatively low level, the Index tends to enhance the position of lower ranked regions and vice versa. Yet, little doubt exists that a major transformation in the relative health of small businesses in the regions is underway and that these three regions are among the region's most affected.

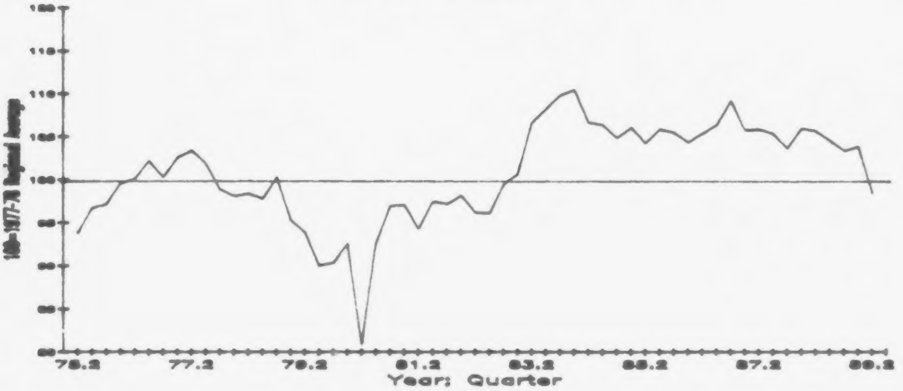
The Pacific region produced the highest Index score for the second consecutive quarter. As can be seen from Chart - Pacific, small businesses in the region appear to have been subject to less cyclicality than those in other parts of the country.

Small business owners in the Great Plains (West North Central) are usually among the least optimistic. Table 26 shows the region's Index to be either the lowest or the second lowest over the period presented. April was no different. While the East South Central Region produced a lower Index score, the Great Plains produced the second lowest. The transformations in relative health that have affected other regions appear to have had no affect in this part of the country.

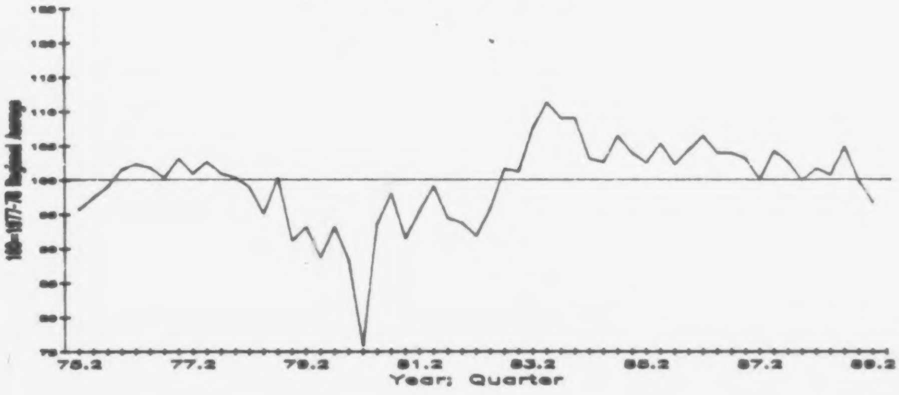
NEW ENGLAND



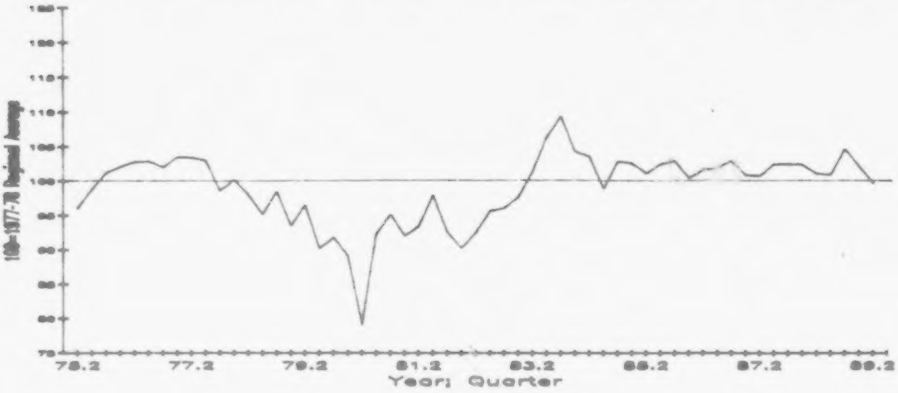
MID-ATLANTIC



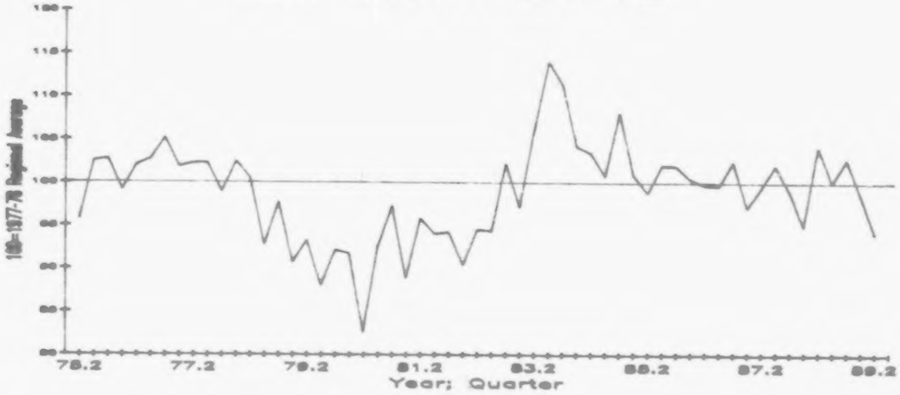
SOUTH ATLANTIC



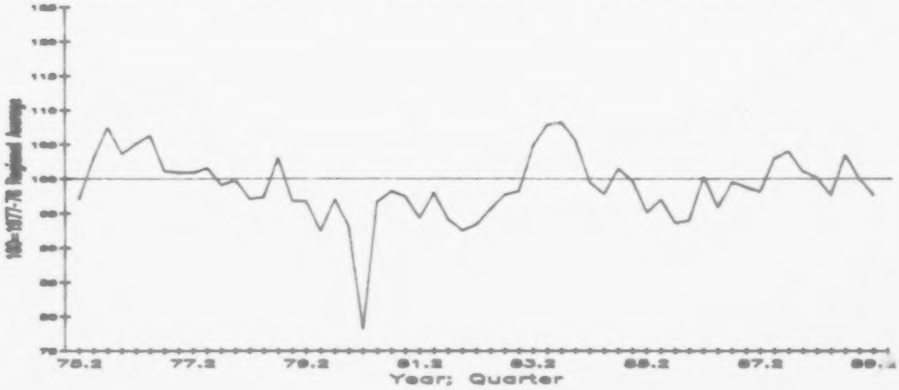
EAST NORTH CENTRAL - THE GREAT LAKES



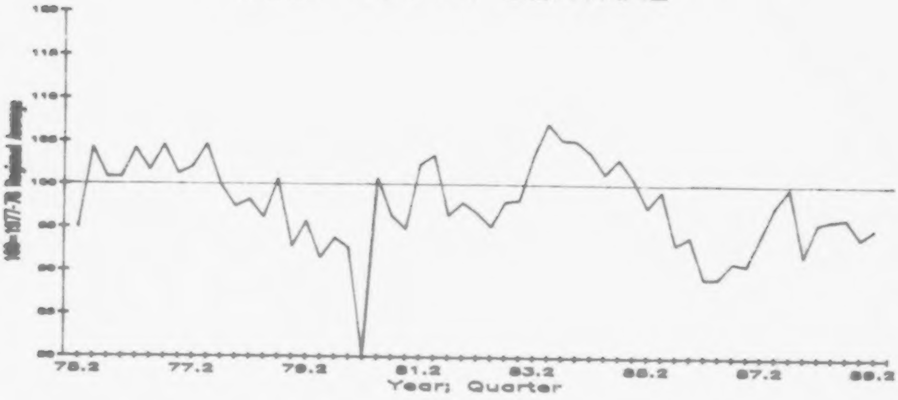
EAST SOUTH CENTRAL



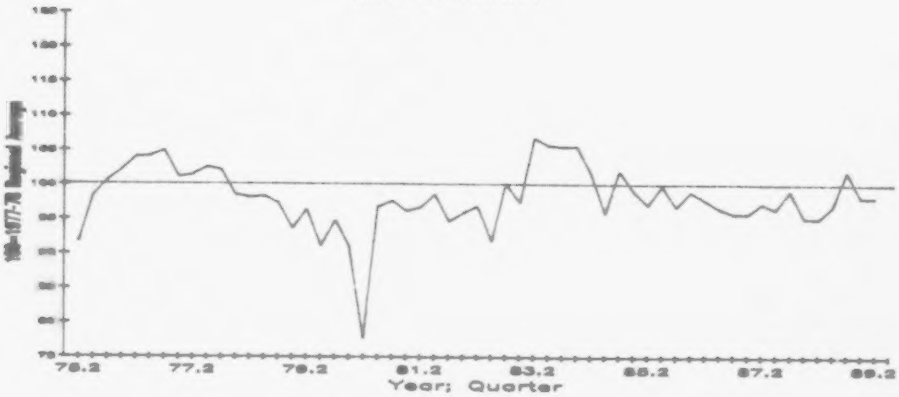
WEST NORTH CENTRAL - THE PLAINS



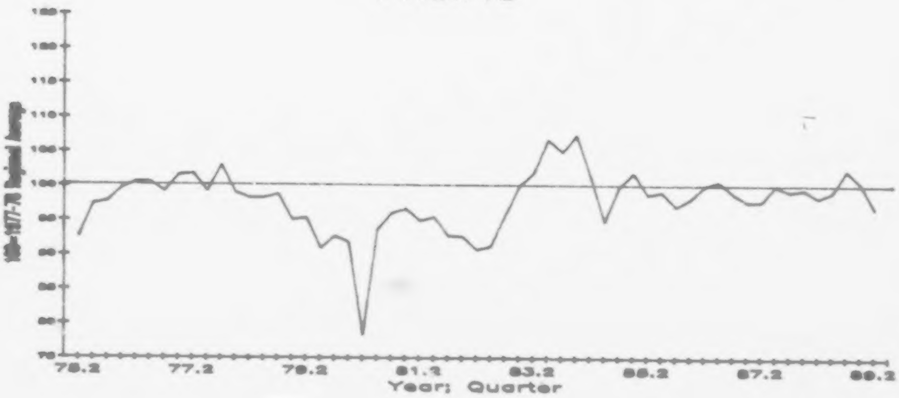
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April 1989
Less than $50,000	8	3	8	2	8	11	5	16	12	8
$50,000-99,999	11	6	7	3	10	14	17	18	6	10
$100,000-199,000	14	13	8	6	17	24	18	19	27	16
$200,000-349,000	15	11	15	11	19	14	12	18	17	16
$350,000-799,999	20	15	27	13	18	24	14	13	21	17
$800,000-1,499,999	17	17	8	17	13	3	15	5	9	13
$1,500,000-2,999,999	7	14	7	23	7	6	8	3	5	8
$3,000,000 or more	7	19	17	24	6	1	8	4	2	9
Not Ascertained	1	2	3	1	2	3	3	4	1	3
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	260	237	60	124	601	71	158	203	121	1835
Percent of Firms	14	13	3	7	33	3	9	11	7	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April 1989
1	5	2	3	5	6	11	9	12	7	6
2	8	6	8	5	12	9	15	13	12	10
3 - 5	23	19	24	23	31	31	41	34	32	29
6 - 9	22	14	17	21	17	13	15	21	20	18
10 - 14	14	11	13	16	12	7	8	5	10	11
15 - 19	5	12	5	9	5	10	2	7	7	7
20 - 39	12	14	10	14	9	2	5	2	5	9
40 or more	9	20	13	8	5	1	4	5	5	8
No Answer	2	2	7	*	3	6	1	*	2	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship	2 Partnership	3 Corporation	1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
2 Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
7 Financial, insurance, real estate, bank, savings & loan, ***etc.***
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
10 Other (please describe) ____________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

1 Taxes	4 Interest rates & financing	8 Quality of labor	
2 Inflation	5 Cost of labor	9 Shortage of fuels, materials or goods	3
3 Poor sales	6 Government regulation(s) & red tape	0 Other ____________	
	7 Competition from large businesses	(please explain)	

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

1 Yes	2 No	3 Uncertain	4

4a. Why? (Circle **ONE** answer – ***most important reason***)

1 Economic conditions	3 Financing & interest rates	5 Other ____________	5
2 Sales prospects	4 Cost of expansion	(please explain)	

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

1 Much better	3 About the same	5 Much worse	6
2 Somewhat better	4 Somewhat worse	6 Don't know	

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

1 Under $12,500	3 $25,000–49,999	5 $87,500–199,999	7 $375,000–749,999	7
2 $12,500–24,999	4 $50,000–87,499	6 $200,000–374,999	8 $750,000 or more	

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

1 Much higher	2 Higher	3 About the same	4 Lower	5 Much lower	8

6b. If higher or lower, by approximately what percentage?

1 Less than 6%	3 11%–15%	5 21%–25%	7 36%–50%	9
2 6%–10%	4 16%–20%	6 26%–35%	8 51% or more	

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

1 Much higher	2 Higher	3 About the same	4 Lower	5 Much lower	10

7a. if higher or lower, by approximately what percentage?

1 Less than 6%	3 11%–15%	5 21%–25%	7 36%–50%	11
2 6%–10%	4 16%–20%	6 26%–35%	8 51% or more	

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**) 12

1 Sales volume
2 Labor costs
3 Cost of materials
4 Availability of materials
5 Received higher prices for your product or service
6 Financing costs
7 Usual seasonal change
8 Other ____________________ (Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***? 13

1 Go up a lot
2 Go up a little
3 Stay the same
4 Go down a little
5 Go down a lot
6 Don't know

9. How are your average selling prices now compared to three months ago? 14

1 Lower now
2 No difference
3 Higher now
4 Don't know

9a. If ***higher or lower***, by what percent, on an average? 15

1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services? 16

1 Yes, raise prices
2 Yes, lower prices
3 No change
4 Don't know

10a. If raise or lower, by what percent, ***on average***? 17

1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

11. How many employees do you have full and part-time ***including yourself***? 18

1 One
2 Two
3 3–5
4 6–9
5 10–14
6 15–19
7 20–39
8 40 or more

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same? 19-21

1 Increased by ____ employee(s)
2 Decreased by ____ employee(s)
3 Stayed the same

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business? 22

1 Yes
2 No

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you? 23

1 Increase
2 Keep the same
3 Decrease

14. Do you have any job openings that you are ***not*** able to fill right now? 24

1 Yes, for skilled labor
2 Yes, for unskilled labor
3 Yes, both skilled and unskilled labor
4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation): 25

1 Less than one month
2 One month, but less than three months
3 Three months, but less than six months
4 Six months or more

15. During the last three months, did you increase or decrease your inventories? 26

1 Increase
2 About the same
3 Decrease
4 Not appropriate

15a. If increase or decrease, by approximately what percent? 27

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate? 28

1 Too large
2 About right
3 Too low
4 Not appropriate

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them? 29

1 Add
2 Keep the same
3 Decrease
4 Not appropriate

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐1 Much higher ☐3 Same ☐5 Much lower ☐7 Inapplicable, do not borrow regularly 30
☐2 Higher ☐4 Lower ☐6 Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: ☐1 Yes 36
Additional Buildings: ☐1 Yes 37
Improved Buildings: ☐1 Yes 38
Additional Land: ☐1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐1 under $1,000 ☐4 $10,000-19,999 ☐7 $100,000-499,999 40
☐2 $1,000-4,999 ☐5 $20,000-49,999 ☐8 $500,000-999,999
☐3 $5,000-9,999 ☐6 $50,000-99,999 ☐9 $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐1 Yes ☐2 No ☐3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐1 Increase ☐2 Keep the same ☐3 Decrease ☐4 Don't know 42

21a. If Increase or Decrease, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% ☐7 Don't know 43
☐2 3-4% ☐4 7-8% ☐6 Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐1 Increased ☐2 Kept the same ☐3 Decreased 44

22a. If Increased or Decreased, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% 45
☐2 3-4% ☐4 7-8% ☐6 Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

☐1 A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
☐2 A small city (population over 15,000 but under 100,000 in city and immediate area)
☐3 A rural area (population under 15,000 in city and surrounding communities)

The NFIB Foundation
Suite 700, 600 Maryland Ave. S.W.
Washington, DC 20024

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The NFIB Foundation

00035288 S

MR GREG CHRIS
CONGRESSIONAL INFO SVC SRI
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

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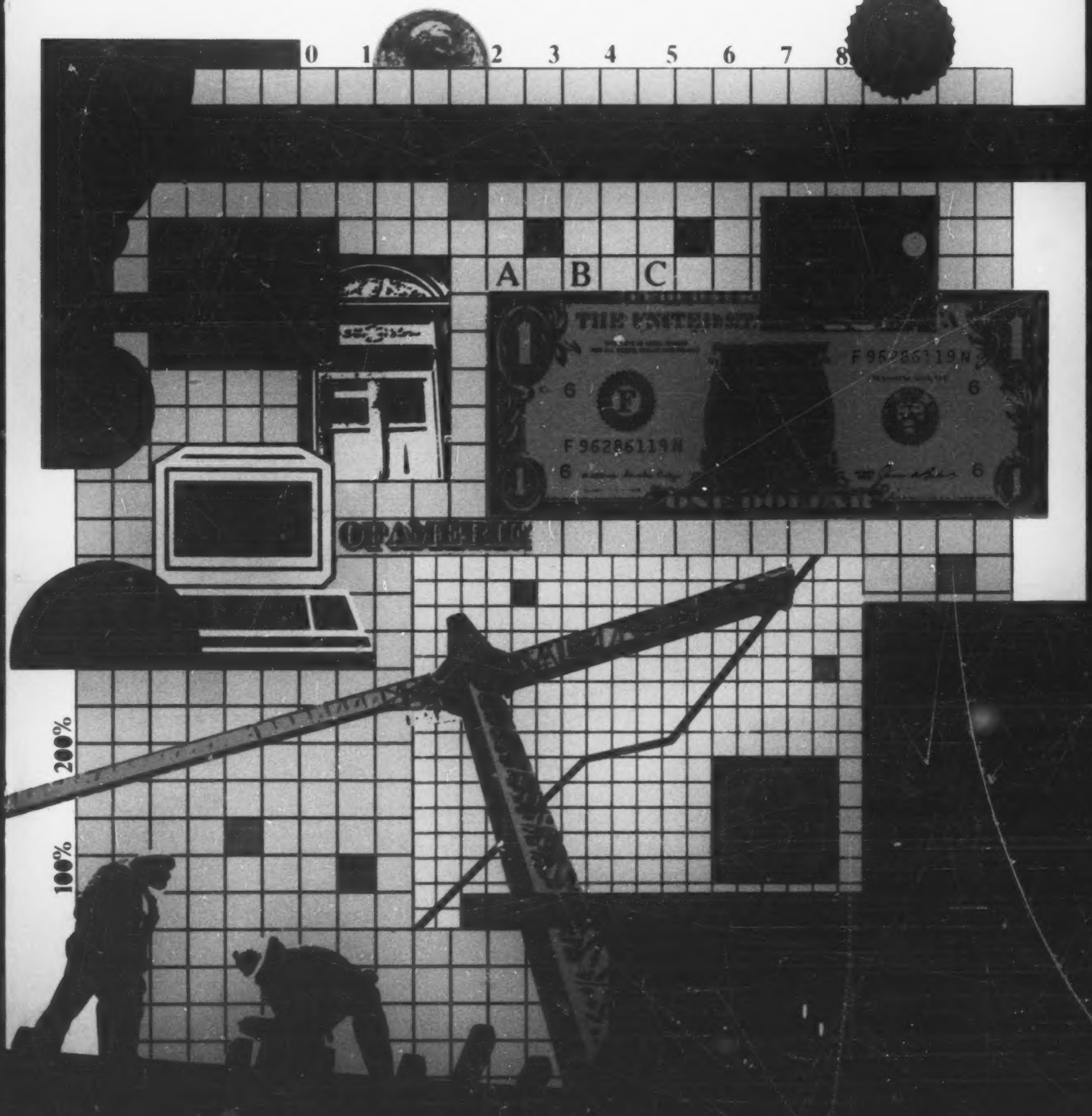
QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

JULY 1989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Quarterly Economic Report for Small Business

July 1989

Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 64)

The 64th in series of quarterly economic reports based on survey data obtained during July 1989 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

Economic activity slowed between April and July leaving small business owners concerned about the future, but sensing no immediate problem. Conditions throughout the late spring and early summer were stable though not particularly profitable. No trend appeared despite the modest rate of activity. Nor did small business owners see next quarter's activity moving in any direction. They expected neither the onset of recession nor an acceleration in the pace of activity. However, within July's data the relative strengths and weaknesses of various indicators shifted suggesting the existence of underlying changes which will eventually push overall activity in one direction or the other.

Softer economic conditions and reduced price pressures characterized the year's second quarter for the nation's small business owners. Most changes from the first quarter, where they occurred, were modest. Sales slipped somewhat. The frequency of capital outlays was down, offset by an increase in their average size. Not as many firms as in previous years accumulated inventories in the spring and early summer, but inventory satisfaction in July was almost identical to April's. Net new employment edged higher as did current job openings. Credit conditions were unchanged, though it was clear that many small business owners were reintroduced to falling interest rates by July's end. The sour note was the sharp decline in the Index of Small Business Earnings. With a sole exception, it dropped to the lowest point since the current expansion began almost seven years ago.

Small business owners raised average selling prices less frequently during the second quarter than they did in the first, reversing the sharp increase registered earlier in the year. But the unchanged frequency of increases in average employee compensation suggested some price pressures from labor costs. However, small business owners did not expect those pressures to last. The number planning average compensation increases over the next three months tumbled just as did the number planning to raise selling prices. Those now planning to raise prices over the next quarter parallels the number who planned to do so one year ago.

The small business outlook rebounded in July. While still anemic by historical standards, both expected general business conditions and the climate for small business expansion registered improvements from April. In fact, the outlook helped push the Index of Small Business Optimism up slightly to 99.8 (1978=100). Expectations for the coming quarter paralleled April's levels or declined modestly. However, inventory plans fell and employment plans declined. The latter was mitigated by the increase in current job openings which signified that locating qualified employees is often more of a problem than is weak labor demand. But on balance, small business owner expectations indicated that the pace of economic activity would change little over the next three months.

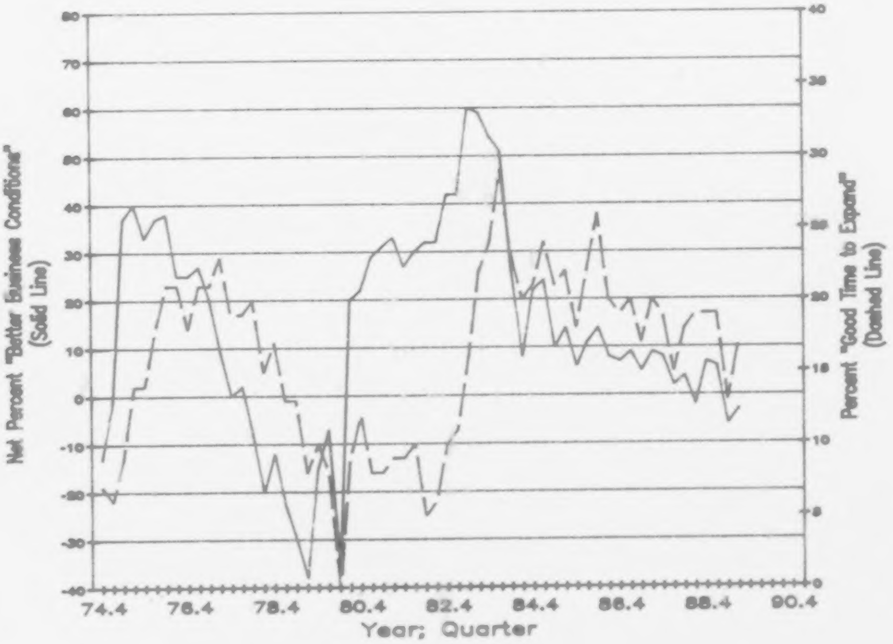
Outlook

The small business outlook rebounded in July. Expected General Business Conditions and the Climate for Small Business Expansion rose from their April levels. They were the first increases in three and four quarters respectively. While the increases were in one instance small and the other moderate, July's levels remained at a comparatively low points for their series (Chart 1).

July's data does not necessarily reverse the outlook's trend. Single quarter rises have occurred periodically since the outlook peaked in 1983 and began its erosion. But, rises in two consecutive quarters have occurred only once in Expected General Business Conditions and three times the Climate for Small Business Expansion since the 1981-82 recession. July halted the outlook's general decline, but it will take a second consecutive increase in October to provide evidence that the trend is in the process of reversal.

Chart 1

EXPECTED GENERAL BUSINESS CONDITIONS AND THE
CLIMATE FOR SMALL BUSINESS EXPANSION



Expected General Business Conditions moved higher in July on a seasonally adjusted basis. However, in the last nine years, only April produced a poorer evaluation. The number of small business owners in July expecting conditions to worsen still exceeded the number expecting conditions to improve. Just 15 percent believed conditions would get better in the next three to six months compared to 21 percent who believed they would get worse (Table 1).

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986 JUL	1987 JUL	1988 JUL	1988 OCT	JAN	1989 APR	JUL
Much Better	2	2	1	2	2	1	1
Better	19	18	15	17	20	17	14
Same	56	59	54	53	58	54	58
Worse	15	13	18	15	11	19	19
Much Worse	2	1	3	1	2	2	2
Don't Know	5	6	8	11	7	7	6
No Answer	1	1	1	1	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The Climate for Small Business Expansion moved up more sharply on a seasonally adjusted basis than did Expected General Business Conditions. Yet, this absolute measure of the outlook remained with one exception the lowest in the last five quarters and with three exceptions the lowest since early 1983. Just 17 percent believed it a good time for small business expansion (Table 2), suggesting a modest level on confidendence in the business climate.

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1986 JUL	1987 JUL	1988 JUL	1988 OCT	JAN	1989 APR	JUL
Yes	20	20	19	16	17	16	17
No	48	42	43	47	44	48	45
Uncertain	31	37	37	37	38	35	37
No Answer	1	1	1	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

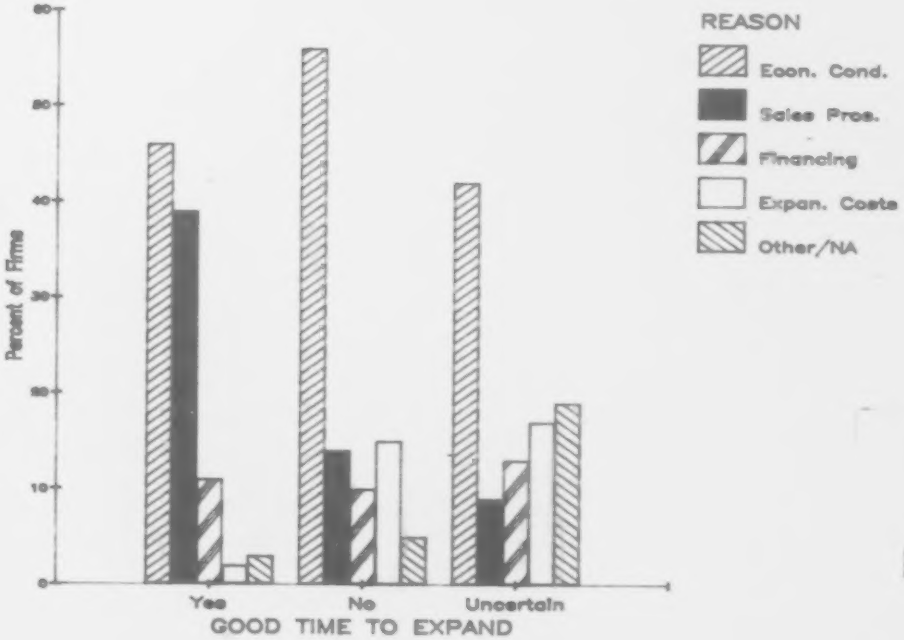
* Less than 0.5%

The more optimistic outlook exhibited in July appeared the direct result of declining interest rates at quarter's end. The number who cited "Financing and Interest Rates" as the primary reason for an optimistic view of the climate for expansion nearly tripled from April (Chart 2). The number who offered it as the primary reason for a negative view declined by 60 percent over the same period and those who cited it as the reason for uncertainty declined by almost half.

Easing price pressures (see, Prices) appeared to have no influence on the outlook in July. The proportion who gave "Expansion Costs" as the primary reason for their view of the climate was virtually unchanged from April. These data provide further evidence that the sharp rise in the price level that was recorded early in the year has had little effect on small business owners except as it has influenced interest rates.

Chart 2

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Credit Conditions

Interest rates paid by small business owners on short-term loans continued to rise throughout the late spring and into the summer. It was not evident until late in the quarter that they had peaked and were moving down. The new direction in interest rates positively affected the small business outlook (see, Outlook), but was too late to have any impact on slowing capital expenditures (see, Capital Expenditures).

Interest rates by small business owners on short-term loans rose 2/10's of a percent over the quarter making rates more than two percentage points higher than they were just two years ago (Table 3). However, the decleration of rates was evident in the decreasing numbers who indicated that rates were higher and the increasing numbers who indicated that rates were either the same or lower. Just 14 percent reported interest rates higher in the second quarter than in the first (Table 4). Meanwhile, 12 percent reported no change compared to four percent who had three months earlier. Seven percent reported them lower compared virtually no one in April.

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1986	1987	1988	1988		1989	
RATE	JUL	JUL	JUL	OCT	JAN	APR	JUL
Under 10%	4	9	4	3	2	4	1
10%-12%	29	29	34	38	36	29	24
13%-15%	14	6	7	8	10	13	17
16% or More	2	3	2	2	3	3	2
Prime +1	28	30	29	27	28	25	29
Prime +2	18	20	20	18	18	21	23
Prime +3 or More	5	3	4	4	3	5	4
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	11.7%	10.6%	11.2%	11.6%	12.0%	12.6%	12.8%

*Less than 0.5%

Modest borrowing activity reflected higher borrowing costs. Just 35 percent classified themselves "regular borrowers." The number ties the survey record low established one year ago. The lower borrowing frequency corresponds to weakening capital expenditures (see, Capital Expenditures). Though strong earnings have meant that borrowing and capital expenditures have not always been related directly, eroding earnings suggest that borrowing will be required more frequently to finance business expansion.

Small business owners also found it relatively easier to obtain a loan in the second quarter than in the first. Eight percent indicated that loans were "harder" to get in the second quarter than in the first (Table 5). The number was down from 11 percent the prior quarter. Traditionally, a larger percentage suggest that loans are more difficult to get than suggest they are easier to get. July's data approximated the series average.

Lower rates at the quarter's end influenced small business owners to believe that credit conditions would improve in the next

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST	1986	1987	1988	1988	1989		
RATES	JUL	JUL	JUL	OCT	JAN	APR	JUL
Much Higher	*	1	*	1	2	7	1
Higher	2	18	17	22	25	29	14
Same	15	16	15	13	9	4	12
Lower	22	2	1	1	1	*	7
Much Lower	1	*	*	*	*	*	*
Don't Know	*	1	2	1	1	1	1
Inapplicable (borrow infrequently;no answer)	60	62	65	62	62	59	65
Total	100%	100%	100%	100%	100%	100%	100%

Table 5

AVAILABILITY OF LOANS COMPARED TO PRIOR THREE MONTHS

LOAN	1986	1987	1988	1988	1989		
AVAILABILITY	JUL	JUL	JUL	OCT	JAN	APR	JUL
Easier	3	2	1	1	1	1	1
Same	28	27	25	28	27	27	25
Harder	8	8	7	7	8	11	8
Don't Know	1	1	2	2	2	2	1
Inapplicable (Don't Borrow; No Answer)	60	62	65	62	62	59	65
Total	100%	100%	100%	100%	100%	100%	100%

three months. Just eigth percent expected credit conditions to deteriorate in the the coming quarter, down from 13 percent in April (Table 6). The five percentage point improvement is substantial and helps explain the more positive outlook (see, Outlook).

Prices

July's data presented "good news" on inflation. Not only was the frequency of small business price increases lower in the second quarter than in the first, but small business owners expected to raise selling prices less frequently in the third quarter than they did in the second. Other survey measures reflecting concern with inflation generally corroborated the direct price evidence. (See, Outlook, Compensation, Earnings, Single Most Important Problem.)

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1986 JUL	1987 JUL	1988 JUL	1988 OCT	JAN	1989 APR	JUL
Easier	2	2	2	2	1	1	1
Same	27	25	22	24	24	23	23
Harder	8	8	8	9	9	13	8
Don't Know	3	3	3	3	4	4	3
Inapplicable (Don't Borrow; No Answer)	60	62	65	62	62	59	65
Total	100%	100%	100%	100%	100%	100%	100%

The first quarter brought the worst set of small business inflation figures since July, 1981. In April, 36 percent reported raising prices the prior three months. That number fell back to 29 percent in the following quarter (Table 7), making July's report consistent with the percent raising prices in six of the prior seven quarters. While the price "spike" recorded earlier in the year now appears a one-time occurrence, the 29 percent level still is about 50 percent (10 percentage points) higher than the level registered between 1984 and 1986.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986 JUL	1987 JUL	1988 JUL	1988 OCT	JAN	1989 APR	JUL
Lower Now	16	10	9	8	8	9	9
No Difference	61	62	58	59	58	52	59
Higher Now	20	24	29	29	29	36	29
Less than 1%	*	1	1	*	1	*	1
1.0-1.9%	2	3	3	4	4	4	3
2.0-2.9%	3	3	5	4	5	5	5
3.0-3.9%	2	3	3	5	4	5	4
4.0-4.9%	2	3	4	4	4	5	4
5.0-7.9%	5	5	6	6	6	9	6
8.0-9.9%	1	2	1	1	1	2	1
10% or More	4	3	5	4	3	4	4
No Answer	1	1	1	1	1	2	1
No Answer	3	4	4	4	5	3	3
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Lower frequency in planned price increases accompanied the lower frequency in selling price increases. Small business owners clearly saw prices softening. Twenty-four (24) percent reported plans to raise prices in the next three months, a decline of four percentage points since April (Table 8). July's plan indicate that the inflation rate will slip back to about 4.5 percent (annualized) over the next few months (Chart 3).

The percentage who were uncertain about their next quarter's pricing plans also fell. Less uncertainty suggests that small business owners feel more confident that they will not receive any unpleasant surprises from their suppliers in the coming three months. Small business owners obviously believe the winter was an abberation.

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED	1986	1987	1988	1988		1989	
PRICE CHANGES	JUL	JUL	JUL	OCT	JAN	APR	JUL
Lower	5	3	2	3	2	3	3
No Change	60	58	53	56	49	51	59
Increase	19	22	26	25	30	28	24
Less than 1%	1	1	*	*	*	*	*
1.0-1.9%	2	2	2	3	3	3	3
2.0-2.9%	3	4	3	4	4	5	4
3.0-3.9%	3	4	4	4	4	4	3
4.0-4.9%	2	2	4	3	4	4	3
5.0-7.9%	4	5	7	7	9	7	6
8.0-9.9%	1	1	2	1	1	1	1
10% or More	2	2	3	3	3	3	3
Don't Know	1	1	2	*	3	1	1
Don't Know	13	13	14	12	13	14	12
No Answer	3	4	5	4	6	4	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

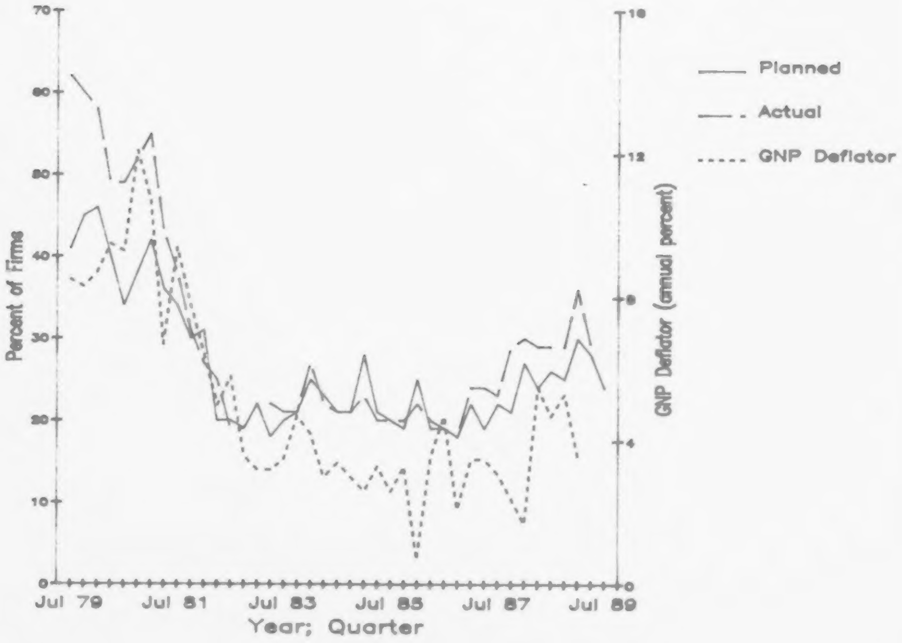
Plans to raise prices were nearly uniform across industry. The two industries which did not follow the pattern were financial services and agriculture (n=84), both of which recorded substantially fewer planning to raise prices than in other industries. Falling interest rates explain plans in the financial services industry.

Compensation

Second quarter compensation increases appeared moderate. Twenty-six (26) percent reported raising average employee compensation by an average of 6.0 percent (Table 9). The increase translates to a rise of 1.5 precent for all firms.

Chart 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



The number of small business owners reporting higher average compensation costs has been rising over the last two years. In July, 1986, just 18 percent reported raising average compensation costs over the prior three months. The figure reached 26 percent by April, 1988, and has remained there in three of the last four quarters. However, the average hike per firm raising compensation has not changed appreciably, implying a modest rise in aggregate costs.

The size of compensation increases are surprising given tight labor markets in parts of the country. But as a general rule, there is a direct relationship between the frequency of compensation increase in the last three months and current job openings (a proxy for labor demand). For example, compensation increases were most frequently awarded in the Mid-Atlantic states. Small business owners in the Mid-Atlantic states also had the second greatest frequency of current job openings. Similarly, small business owners in the West South Central states provided the least frequent compensation increases (19 percent) and least frequently had a current job opening (16 percent).

Plans to raise average employee compensation in the next three months fell in July. Just 18 percent planned such increases, down four percentage points from April and six from January (Table 10). The average planned increase per firm with higher average employee compensation was 5.6 percent. However, compensation plans are highly seasonal and July is the month when plans are traditionally fewest. The series relatively short life-span does not yet allow seasonally weights to be attached. Thus, the decline in plans suggest that fewer average compensation increases will occur in the third quarter than in the second, but the reduction will not be as great as plans indicate.

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION	1986	1987	1988	1988	1989		
CHANGE	JUL	JUL	JUL	OCT	JAN	APR	JUL
Increased	21	23	25	26	24	26	26
1-2%	3	3	3	3	3	3	4
3-4%	5	7	7	8	7	7	6
5-6%	7	7	8	7	7	7	9
7-8%	3	2	3	3	3	3	3
9-10%	2	2	2	2	2	3	3
Over 10%	1	1	2	2	5	2	1
No Answer	*	1	*	1	*	1	*
Same	71	70	69	67	69	68	67
Decreased	2	1	1	1	1	1	1
No Answer	6	6	5	6	6	5	6
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.8%	5.9%	5.9%	5.8%	5.9%	5.9%	6.0%
All Firms	1.3%	1.4%	1.5%	1.5%	1.4%	1.5%	1.5%

* Less that 0.5%

Sales

Despite generally weakening conditions, small business sales have held up reasonably well over the last year. Sales declines have been relatively small and they started from a substantial base. In July, 39 percent reported higher sales than in the prior quarter compared to to 20 percent who reported them lower (Table 11). The result was a small slide in the seasonally adjusted Index of Small Business Sales (Chart 4). Yet, even with the slide, the Index remained above the level registered in nine of the last twenty quarters.

Small business owners expected slightly lower sales for the third quarter than they did for the second (on a seasonally adjusted basis). However, they were the least optimistic sales expectations

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS

COMPENSATION	1986	1987	1988	1988		1989	
CHANGE	JUL	JUL	JUL	OCT	JAN	APR	JUL
Increase	16	17	18	21	24	22	18
1-2%	2	2	1	2	2	2	2
3-4%	4	6	6	7	7	6	6
5-6%	5	5	6	7	9	7	6
7-8%	1	1	1	1	2	2	2
9-10%	1	1	2	2	2	2	1
Over 10%	1	1	1	1	1	1	*
Don't Know	1	1	1	1	1	1	*
No Answer	1	*	*	*	*	1	1
Same	70	69	67	66	63	66	69
Decrease	2	1	1	1	1	*	1
Don't Know	9	10	11	10	9	10	9
No Answer	3	3	3	2	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

	1986	1987	1988	1988		1989	
AVERAGE INCREASE	JUL	JUL	JUL	OCT	JAN	APR	JUL
Firms Increasing	5.2%	5.6%	5.8%	5.4%	5.9%	5.8%	5.6%
All Firms	0.8%	0.9%	1.0%	1.1%	1.4%	1.3%	1.0%

*Less than 0.5%

in 11 quarters. Forty-four (44) percent expected higher sales in the coming quarter compared to 19 percent who expected them lower (Table 12). However, the net percent expecting higher sales in the next quarter normally exceeds the net percent realizing them after the quarter by about 25 percentage points.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1986	1987	1988	1988		1989	
SALES VOLUME	JUL	JUL	JUL	OCT	JAN	JUL	JUL
Much Higher	4	4	4	3	4	3	3
Higher	33	34	36	32	29	26	36
About the Same	38	41	38	45	40	40	40
Lower	20	17	18	17	22	25	17
Much Lower	4	2	3	2	3	5	3
No Answer	1	2	1	1	2	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1986	1987	1988	1988		1989	
REAL SALES	JUL	JUL	JUL	OCT	JAN	APR	JUL
Go Up A Lot	7	8	8	9	8	11	6
Go Up A Little	41	42	39	34	36	45	38
Stay the Same	28	31	30	26	29	22	32
Go Down a Little	16	13	15	20	18	14	16
Go Down a Lot	3	2	3	6	4	3	3
Don't Know	4	3	4	3	3	3	3
No Answer	1	1	1	2	2	2	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Earnings

The Index of Small Business Earnings tumbled sharply in July (Chart 4). Its new level was the lowest point in ten quarters. Twenty-six (26) percent reported higher earnings in the first quarter than in the second compared to 32 percent who reported them lower (Table 13).

Table 13

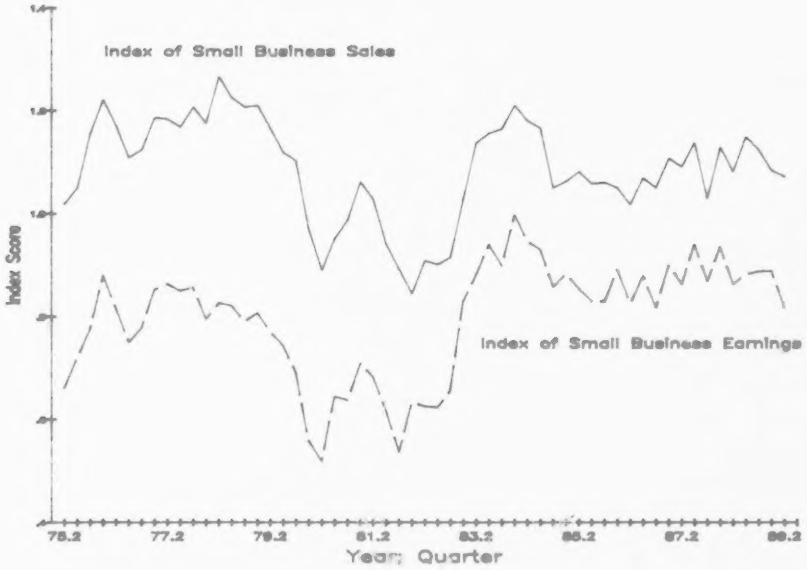
NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET	1986	1987	1988	1988		1989	
EARNINGS	JUL	JUL	JUL	OCT	JAN	APR	JUL
Much Higher	2	1	2	2	2	1	1
Higher	24	25	25	22	21	18	25
Same	41	43	41	46	43	41	41
Lower	26	25	25	25	27	32	28
Much Lower	5	3	4	4	4	5	4
No Answer	2	3	3	2	3	3	1
Total	100%	100%	100%	100%	100%	100%	100%

Sales volume was the reason most often cited for lower earnings (Table 14). The number pointing to lower sales (43 percent) was typical of the levels recorded over the last few years. However, the reason cited more often than usual was factor costs. Thirty (30) percent of those with lower earnings noted them, four percentage points more than last July and 13 percentage points more than July, 1986. Of the factor costs causing problems, rising material and labor costs were the two principally responsible.

Chart 4

INDICES OF SMALL BUSINESS
SALES AND EARNINGS



While most data in July's report indicates that rising prices have returned to the levels experienced over the last few years, one residual of the first quarter price run-up could easily be small business earnings.

Over half of those with higher earnings cited sales volume as the primary reason and another one quarter plus cited seasonality. Just eight percent attributed higher earnings primarily to price increases. The modest number using price increases to boost earnings indicates that sales volume will not support higher prices generally.

Employment

Small business continued to hire in enormous quantities during the second quarter, but evidence of a weakening demand for employees began to creep up. Still, current job openings remained very high, particularly in some parts of the country. The changing employment condition suggested that while unemployment may rise slightly in the coming months, employee shortages will be the focus of concern rather than a shortage of jobs.

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH	1986	1987	1988	1988	1989		
NET EARNINGS	JUL	JUL	JUL	OCT	JAN	APR	JUL
Sales Volume	55	57	59	58	60	59	56
Higher Prices	10	7	7	11	9	11	8
Factor Costs*	5	6	1	6	6	7	4
Seasonality	21	21	22	19	18	12	27
Other; NA	9	9	11	6	8	11	5
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER	1986	1987	1988	1988	1989		
NET EARNINGS	JUL	JUL	JUL	OCT	JAN	APR	JUL
Sales Volume	45	43	41	39	40	39	42
Factor Costs*	17	25	26	28	21	25	27
Seasonality	12	13	13	17	24	20	15
Other; NA	26	19	20	15	15	16	16
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

Twenty-one (21) percent increased net employment during the second quarter compared to just 11 percent decreasing net employment (Table 15). With the particularly large number of new jobs per firm hiring, the average net change per firm rose to +.53, the strongest employment performance by operating small businesses since the second quarter of 1985.

Current job openings remained strong, only one percent below the expansion high 25 percent set in October, 1988. Twenty-four (24) percent reported at least one job opening in July (Table 16). Seven percent indicated at least one vacancy for unskilled workers, demonstrating that labor shortages are not confined to those needing esoteric skills.

Plans to make net additions to the labor force indicated that the demand for employees among small businesses may be sagging. Though the total growth in employment has eroded recently, small business owners have provided no indication that they planned to reduce hiring. That situation appeared to be changing in July. For the second consecutive quarter, hiring plans tumbled on a seasonally adjusted basis. Just 15 percent expected to add net employment in the next three months compared to 10 percent expecting net reductions (Table 17). The net +5 percentage point difference represented the weakest set of employment plans in 11 quarters.

The continued strength of small business employment has not been confined to any industry. It has been widespread. However, some industries have consistently exhibited a greater need for employees

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986	1987	1988	1988	1989		
	JUL	JUL	JUL	OCT	JAN	APR	JUL
Increased	21	20	20	16	14	14	21
Seasonal	11	10	10	5	5	5	11
Non-seasonal	10	10	10	11	9	9	10
Decreased	13	11	10	13	13	13	11
Seasonal	3	3	2	5	6	4	2
Non-seasonal	10	8	8	8	7	9	9
No Change	65	65	68	69	70	72	68
No Answer	1	4	2	2	3	1	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.7	3.8	3.9	3.6	3.9	3.6	4.2
Employees decreased per firm decreasing	3.7	4.7	3.3	3.7	3.7	4.2	3.1
Average net change per all firms	+.29	+.25	+.44	+.10	+.05	-.43	+.53

*Less than 0.5%

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986	1987	1988	1988	1989		
	JUL	JUL	JUL	OCT	JAN	APR	JUL
Yes	17	21	21	25	24	23	24
Skilled Labor	12	14	15	16	15	15	17
Unskilled Labor	2	3	3	4	5	4	3
Both	3	4	3	5	4	4	4
No	82	78	78	74	75	76	75
No Answer	1	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

than have others. July's data, typical of recent reports, showed greatest demand for employees lying in the financial services, services, transportation (n=63) and manufacturing. The retail and agriculture industries were the ones showing least strength. A similar regional pattern, extensively described in earlier reports, also existed. The east coast and the Great Lakes area exhibited greatest demand and the West South Central region the least.

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE	1986	1987	1988	1988		1989	
EXPECTATION	JUL	JUL	JUL	OCT	JAN	APR	JUL
Increase	14	16	16	18	20	23	15
Keep the Same	75	75	73	69	69	69	74
Decrease	9	8	9	11	7	5	10
No Answer	2	1	2	2	4	3	1
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

Slipping sales left inventory accumulations in July average to slightly above average. The result was little dissatisfaction with current inventory levels, but a cautious attitude toward taking on new inventories in the next three months.

Twenty (20) percent reported increasing net inventories in the last three months compared to 15 percent reporting net declines (Table 18). The result was slightly higher accumulations than is typical in July, but not so large as to cause concern. In fact, small business owners were generally satisfied with their inventory levels at quarter's end. Ten (10) percent indicated that inventories were "Too Low" and 12 percent indicated they were "Too High" (Table 19). The net -2 percent figure has typlified inventory satisfaction levels since January, 1987.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY	1986	1987	1988	1988		1989	
CHANGE	JUL	JUL	JUL	OCT	JAN	APR	JUL
Increase	21	20	21	20	17	20	20
Same	40	43	45	46	42	43	44
Decrease	18	16	13	14	19	17	15
Not Applicable	19	19	19	18	19	19	20
No Answer	2	2	2	2	3	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Despite the relative comfort small business owners exhibited over current inventory levels, they were no in hurry to make additions. Just 16 percent planned net additions in the coming quarter with 15 percent planning declines (Table 20). Seasonally adjusted, July's plans represented a sharp fall from April. They were the poorest set of inventory plans in 11 quarters. However, the decline is not surprising. Expectations of lower sales, prior accumulations a bit higher than usual, high - but declining - carrying costs and poorer earnings are an ideal formula to yield lower inventory plans.

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL*	1986 JUL	1987 JUL	1988 JUL	1988 OCT	1989 JAN	APR	JUL
Too Large	12	10	12	10	12	11	12
About Right	55	57	54	58	55	56	55
Too Low	9	10	10	10	10	10	10
Not Applicable	21	21	20	20	21	21	19
No Answer	3	2	2	2	2	2	4
Total	100%	100%	100%	100%	100%	100%	100%

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1986 JUL	1987 JUL	1988 JUL	1988 OCT	1989 JAN	APR	JUL
Add	16	17	16	17	22	21	16
No Change	45	46	45	44	43	44	46
Decrease	16	14	15	17	12	12	15
Not Applicable	20	20	21	20	20	20	15
No Answer	3	3	3	2	3	3	8
Total	100%	100%	100%	100%	100%	100%	100%

Capital Expenditures

The frequency of capital expenditures declined between April and July. Fifty-four (54) percent reported making one or more capital expenditures in the last three to six months, down three percentage points from April's report (Table 21). The most frequent investments were in equipment and vehicles. Forty-five (45) percent made at least one capital investment in them, down from January and April but higher than customary at this time of year.

The less frequent expenditures were offset, however, by the increased average size of outlays. Thirty-five (35) percent of the outlays reported in July were less than $10,000 (Table 22). The characteristic figure for investments under $10,000 has been over 40 percent. The increased size of capital expenditures resulted from greater percentages in the $10,000-$49,000 range. The number of large investments did not change appreciably.

Table 21

PERCENT MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986	1987	1988	1988		1989	
	JUL	JUL	JUL	OCT	JAN	APR	JUL
All Types+	51%	55%	56%	55%	57%	57%	54%
Equipment/ Vehicles	40	43	44	44	49	46	45
Add Buildings	7	7	7	7	7	8	7
Improved Buildings	14	16	16	18	14	16	15
Land	5	4	3	4	4	4	4

+Percent of firms making one or more capital expenditures

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986	1987	1988	1988		1989	
	JUL	JUL	JUL	OCT	JAN	APR	JUL
Under $1	6	7	8	7	6	6	4
$1 - 4	21	22	20	20	22	19	18
$5 - 9	13	15	14	13	13	16	13
$10 - 19	17	19	22	21	22	17	24
$20 - 49	21	17	17	17	18	18	20
$50 - 99	10	10	9	11	9	10	9
$100 - 499	9	8	8	8	8	11	11
$500 - 999	1	1	2	2	1	2	*
$1,000 or More	2	1	*	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Despite declining earnings and weaker demand, 31 percent of small business owners planned to make one or more capital expenditures in the next three to six months (Table 23). Seasonally adjusted, July's plans were identical to April's and only three percentage points off the survey record high recorded in October, 1988 and January, 1989. In fact, July plans were more favorable than those recorded in 12 of the last 16 quarters.

Capital expenditures made in small businesses have peaked twice during the expansion. The first occurred in 1985 and early 1986. It was followed by a lull the next three to four quarters. A second peak occurred in 1988 and early 1989. While small business owner plans suggested that more quarters will be added to the second peak, several currently changing factors could influence their direction. In fact, the most recent numbers indicate they have already slowed. This condition is reenforced by earnings and sales which have begun to move lower (see, Earnings, Sales) though both are high by series averages. Offsetting those factors are falling interest rates (see, Credit Conditions) and stabilizing prices (see, Prices). If capital expenditures do remain at their current high levels, however, a large portion of those investments will almost assuredly be directed to increasing productivity rather than expanding the business.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986	1987	1988	1988	1989		
	JUL	JUL	JUL	OCT	JAN	APR	JUL
Yes	29	33	29	34	36	33	31
No	56	51	57	50	48	52	55
Don't Know	12	12	11	11	13	11	11
No Answer	3	4	3	5	3	4	3
Total	100%	100%	100%	100%	100%	100%	100%

Single Most Important Problem

"Taxes" once again was most frequently cited as the single most important problem of small business (Table 24). Twenty-one (21) percent noted "Taxes," one percentage point lower than in April. Not since October, 1984, has any problem other than "Taxes" been cited with greater frequency.

The relative frequency with which each survey problem has been cited has changed little during most of the expansion. This consistency suggests no overwhelming burden has preoccupied small business owners. Even responses written in have shown no pattern though insurance concerns for a while appeared to be a candidate for inclusion on the survey.

The lack of change in the single most important problem between the April and July surveys reflects the constant conditions over the period. Curiously, the frequency with which each problem was cited in July was within one percentage point - plus or minus - of the frequency with which it was cited in April.

Index of Small Business Optimism

The Index of Small Business Optimism nudged higher in July. It rose a modest 3/10's of a point from April to 99.8 (100=1978) (Table 25). Effectively, the Index showed no change from the previous quarter though it is about three percent lower than January's and last October's (Chart 5).

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High		Prior Low		1988 OCT		1989 JAN		APR		JUL	
	Date	%	Date	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	4/88+	25	10/74	8	1	23	1	22	1	22	1	21
Inflation	10/74	41	10/87+	2	8	2	8	3	8	4	8	4
Poor Sales	10/82	23	1/75+	1	4	11	4	10	4	10	3	10
Interest Rates & Financing	4/82+	37	7/77	4	6	7	6	9	3	11	3	10
Cost of Labor	7/77	9	7/82	2	7	6	7	5	7	7	7	7
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	14	2	16	2	16	2	17
Competition from Large Business	10/76	13	4/80+	4	4	11	3	12	5	9	3	10
Quality of Labor	10/88+	12	1/83+	3	3	12	4	10	5	9	3	10
Shortage of Fuel Material, Goods	1/74	23	1/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	14	-	13	-	12	-	11
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
+ Most recent

Table 25

INDEX OF SMALL BUSINESS OPTIMISM BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 JUL	1987 JUL	1988 JUL	1988 OCT	1989 JAN	APR	JUL
General Expectations[1]	112.0	113.8	109.3	107.3	110.5	110.3	107.8
Current Status[2]	102.3	106.3	105.7	106.3	104.3	101.3	106.0
Spending Plans[3]	111.3	114.3	113.0	113.7	119.7	120.0	112.3
Index*	108.9	111.7	109.3	103.7	111.4	110.5	108.6
Index (1978=100)+	100.1	102.7	100.5	102.9	102.8	99.5	99.8

*Index numbers
+Seasonally Adjusted

[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions

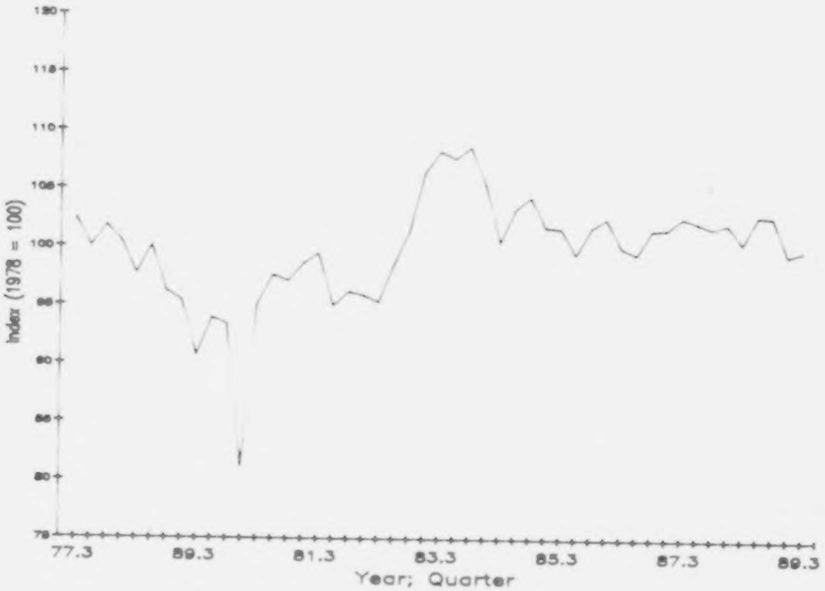
[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings

[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

The strength of the Index lay in the Current Status component. General Expectations fell in the middle. The weakness lay in Spending Plans. This reverses the trend of the last several quarters, particularly January and April, in which Spending Plans lead the way. Small business owners have recently believed that they individually would fare better than the general economy. The new attitude on Spending Plans suggest that they now are more inclined to believe that the economy will fare better than will they individually.

Chart 5

INDEX OF SMALL BUSINESS OPTIMISM



Regional Conditions

The fortunes of small business in the regions continually changes. But, July was symbolic because New England provided the lowest regional Index of Small Business Optimism in the nation. New England small business owners produced an Index score of 103.1, marginally lower than the Great Plains which produced the second lowest (103.8) (Chart 6).

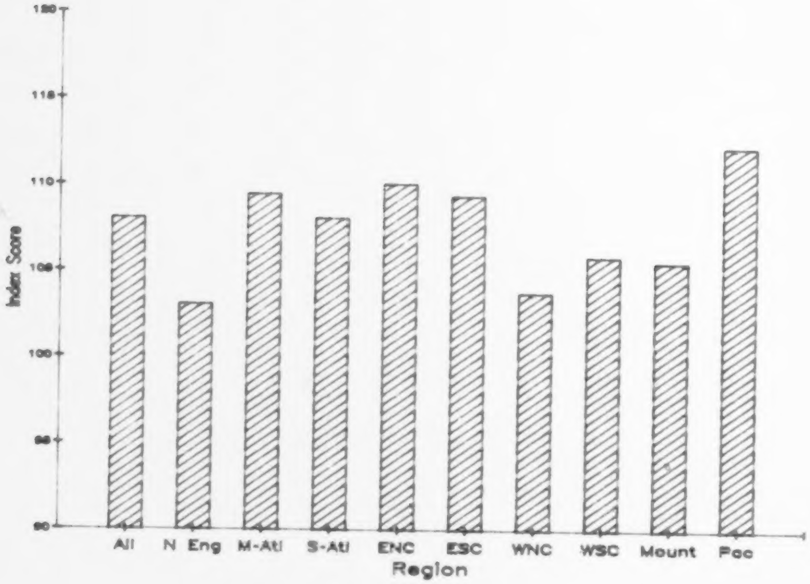
The reversal in New Englands's fortunes was as rapid as it was dramatic. Two years ago, July 1987, New England small business owners produced an Index score almost 10 points higher than its nearest rival. As recently as five quarters ago, its Index score was still the nation's highest. Despite its relative position, New England's Index score does not mean that small businesses in the region are faring worse than small businesses in all other regions.

The Index contains a number of "relative" questions which has the effect of exaggerating a steep decline. Nonetheless, it is a new day in New England and not a positive one economically.

Labor shortages are one of the reasons for New England's decline. That is a problem which is also beginning to seriously impact small businesses in the prosperous Mid-Atlantic region as well. Small business in the Mid-Atlantic region has held up comparatively well throughout the expansion and continues to do so. No evidence beyond labor shortages suggests that a reversal of relative fortunes is in the works. However, the labor shortages which adversely affected New England may do the same for the Mid-Atlantic states.

Chart 6

JULY INDEX OF SMALL BUSINESS OPTIMISM BY REGION



The East North Central region - the Great Lakes states - continued its emergence. Only the Pacific region produced a higher Index. Small business in the Great Lakes region has fared comparatively well during the expansion, particularly the latter part. The reason probably lies in the large concentration of small manufacturers which supply the nation's export industries. A second probably lies in the region's under-employed and quality labor force. However, the percent of small business in the region with at least one job opening now approaches the percentage reported in parts of the East.

Small business activity in the South Atlantic region approximates the national average. Small business owners in the region produced an Index score of 108.1, placing it in the middle of the nine regional scores. Differing from small business owners in other regions, small business owners in the South Atlantic region came roaring out the recession and then have watched optimism gradually erode. No major problems appear to exist in the region, but enthusiasm is tempered.

Owners of small firms in the East South Central region usually register an Index score around the national average. July was no different. While the quarter's score was above average suggesting better than average activity in the next three months, it was not high enough to suggest that activity would be strong.

The Index produced by small business owners in the West North Central region - the Great Plains - traditionally lags that produced elsewhere. The gap usually is about five percent lower than the national average. Invariably, the region's Index either is or is close to the nation's lowest. In July, only New England had a lower Index score. The difficulties of small business in the Great Plains is underscored by the consistency of its Index scores. The skewing effects of rapid change have had no influence on the region's Index. The problems are deep and show few signs of easing. Here, the problem is not the lack of labor; it is the lack of sales.

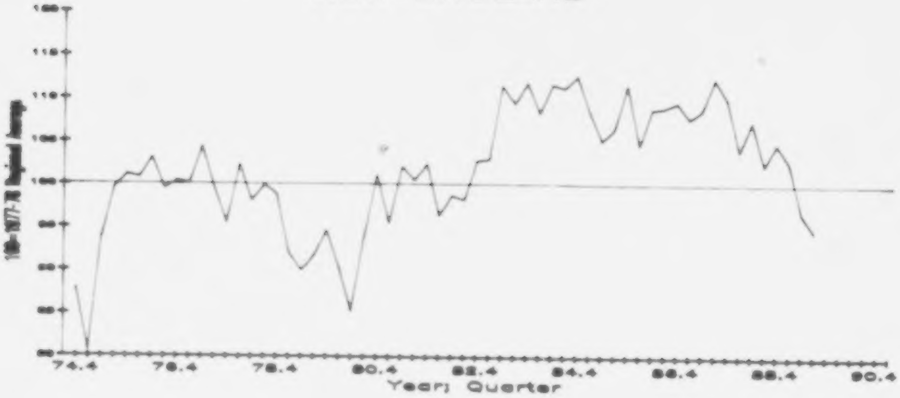
The Index of Small Business Optimism for the West South Central states remained below the national average in July. It has been there since late 1984. While it is clear small business has recovered to some extent from the poor conditions existing in 1986, the recovery remains incomplete. Moreover, the Index trend no longer shows a generally upward direction. It appears stalled though the last two quarters were encouraging.

Small business owners in the Mountain region saw their Index fall again. After what appeared to be the onset of a promising recovery in mid-1988, conditions turned sour again. Two of the last three quarters have produced sharply lower Index scores.

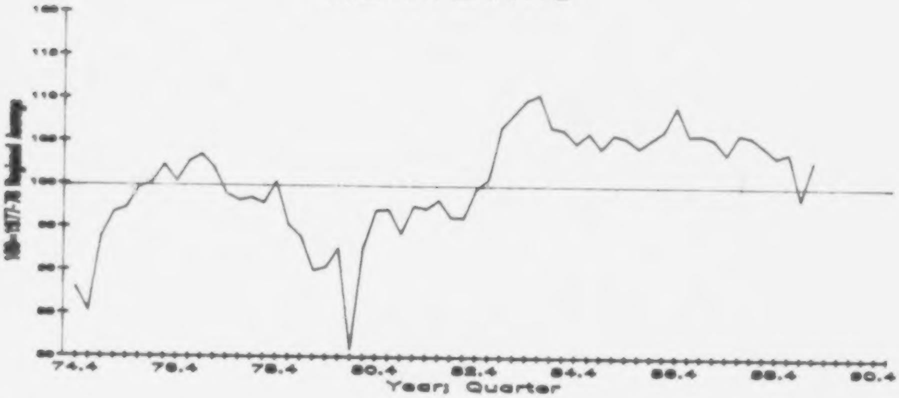
While the Index fell a bit in the Pacific region, it remained the nation's highest. The Pacific region's Index was about 4 percent higher than the national average. Since New England surrendered its leading position one year ago, small business owners in the Pacific have held the banner and do not seem yet to have a challenger.

The descriptions just provided are based on the direct comparison of regions. The charts that follow compare each region to its regional base period. Thus, the charts show a somewhat different portrait of regional performance than does the text.

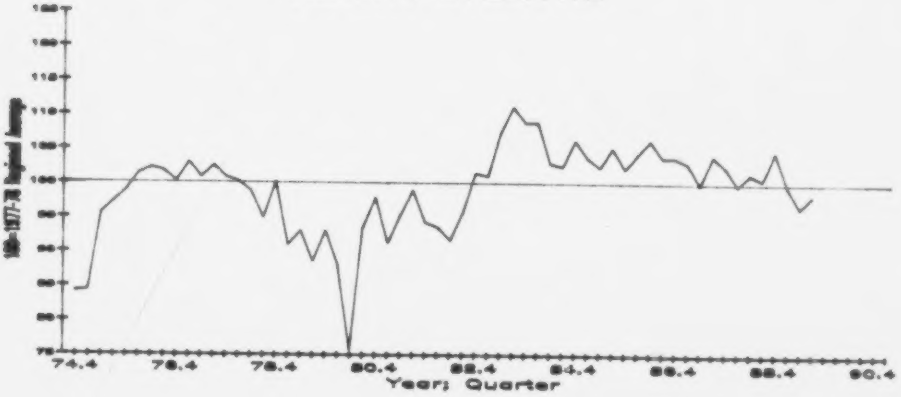
NEW ENGLAND



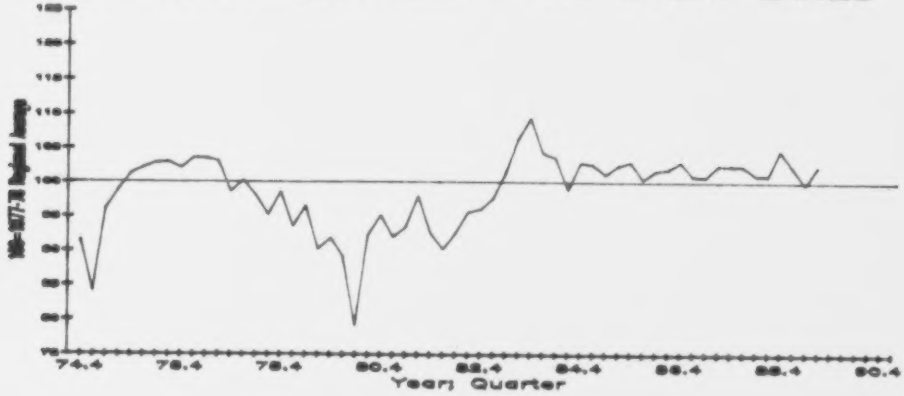
MID-ATLANTIC



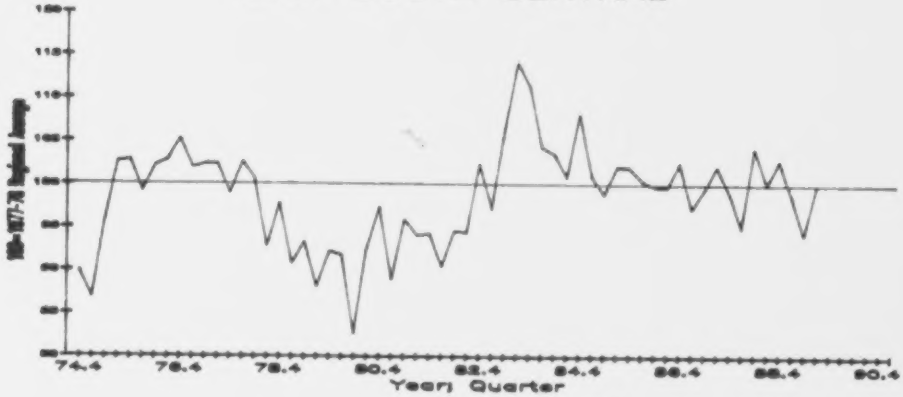
SOUTH ATLANTIC



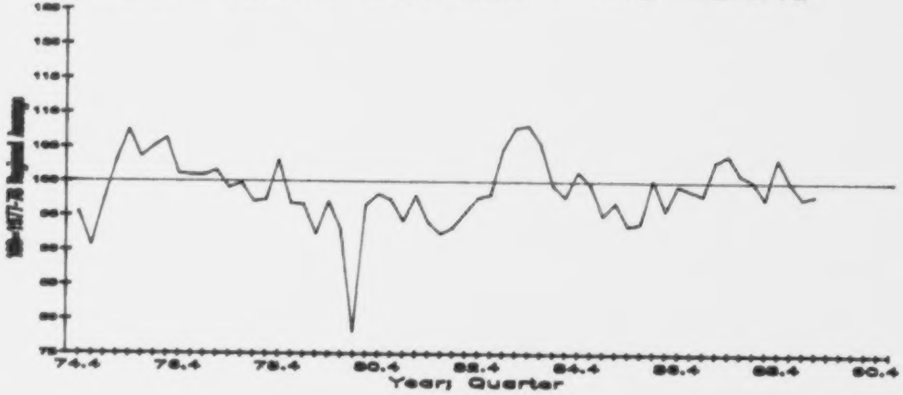
EAST NORTH CENTRAL - THE GREAT LAKES



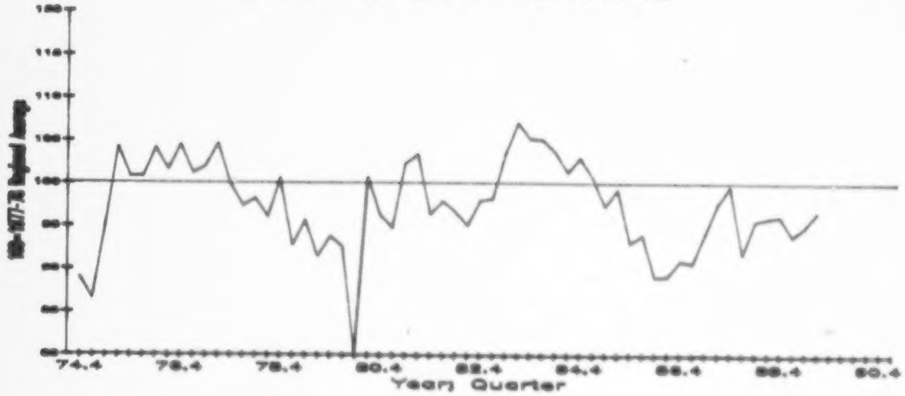
EAST SOUTH CENTRAL



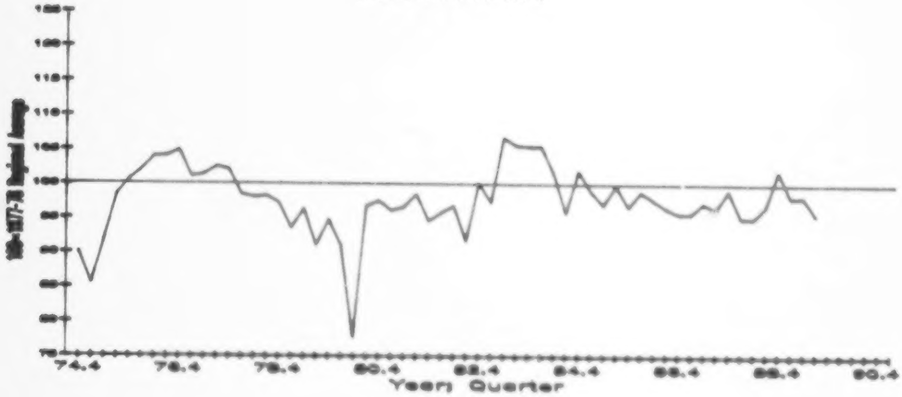
WEST NORTH CENTRAL - THE PLAINS



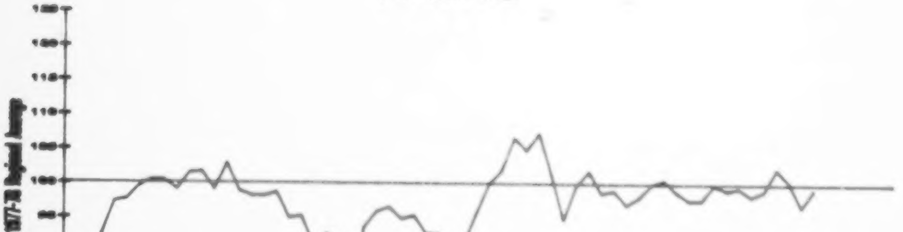
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms July 1989
Less than $50,000	5	1	8	1	7	13	6	16	11	7
$50,000-99,999	8	8	2	2	8	11	12	16	10	9
$100,000-199,000	15	13	14	4	14	21	16	22	21	15
$200,000-349,000	16	10	11	7	15	16	12	16	20	14
$350,000-799,999	19	20	13	14	25	17	19	13	18	19
$800,000-1,499,999	15	15	20	22	14	11	13	7	10	13
$1,500,000-2,999,999	10	14	14	22	8	2	6	4	2	9
$3,000,000 or more	10	17	14	24	8	7	13	5	6	11
Not Ascertained	2	2	4	4	1	2	3	1	2	3
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	262	252	64	132	534	84	152	247	117	1851
Percent of Firms	14	14	4	7	29	5	8	13	6	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms July 1989
1	8	2	6	4	5	7	6	11	11	6
2	5	4	3	8	9	20	12	15	14	9
3 - 5	26	21	22	19	32	33	41	34	30	30
6 - 9	20	14	19	22	20	20	15	19	21	19
10 - 14	14	17	14	16	14	2	9	5	7	12
15 - 19	8	9	13	8	5	4	2	4	5	6
20 - 39	10	16	11	14	7	5	7	5	1	8
40 or more	8	16	13	8	7	8	5	6	9	9
No Answer	1	1	*	1	1	1	3	1	2	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship   2 Partnership   3 Corporation   1

2. Please classify your major business activity using one of the categories of examples below (If more than one applies, circle *the one* which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, *etc.*)
2 Manufacturing and mining (including dairy processor, printer, publisher, *etc.*)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, *etc.*)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., *etc.*)   2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, *etc.*)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, *etc.*
7 Financial, insurance, real estate, bank, savings & loan, *etc.*
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, *etc.*
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, *etc.*
10 Other (please describe)________________________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

1 Taxes
2 Inflation
3 Poor sales
4 Interest rates & financing
5 Cost of labor
6 Government regulation(s) & red tape
7 Competition from large businesses
8 Quality of labor
9 Shortage of fuels, materials or goods   3
0 Other ________________________ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

1 Yes   2 No   3 Uncertain   4

4a. Why? (Circle **ONE** answer – ***most important reason***)

1 Economic conditions
2 Sales prospects
3 Financing & interest rates
4 Cost of expansion
5 Other ________________________ (please explain)   5

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

1 Much better
2 Somewhat better
3 About the same
4 Somewhat worse
5 Much worse   6
6 Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

1 Under $12,500
2 $12,500–24,999
3 $25,000–49,999
4 $50,000–87,499
5 $87,500–199,999
6 $200,000–374,999
7 $375,000–749,999   7
8 $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

1 Much higher   2 Higher   3 About the same   4 Lower   5 Much lower   8

6b. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%   9
8 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

1 Much higher   2 Higher   3 About the same   4 Lower   5 Much lower   10

7a. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%   11
8 51% or more

7b. If higher or lower what is the **most important reason**? (Circle only **ONE**) 12
1 Sales volume
2 Labor costs
3 Cost of materials
4 Availability of materials
5 Received higher prices for your product or service
6 Financing costs
7 Usual seasonal change
8 Other ______________
(Specify)

8. Overall, what do you expect to happen to the real **volume** (number of units) of goods and/or services that you will sell during the **next three months**? 13
1 Go up a lot
2 Go up a little
3 Stay the same
4 Go down a little
5 Go down a lot
6 Don't know

9. How are your average selling prices now compared to three months ago? 14
1 Lower now
2 No difference
3 Higher now
4 Don't know

9a. If **higher or lower**, by what percent, on an average? 15
1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

10. In the **next three months**, do you plan to **change** the average selling prices of your goods and/or services? 16
1 Yes, raise prices
2 Yes, lower prices
3 No change
4 Don't know

10a. If raise or lower, by what percent, **on average**? 17
1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

11. How many employees do you have full and part-time ***including yourself***? 18
1 One
2 Two
3 3–5
4 6–9
5 10–14
6 15–19
7 20–39
8 40 or more

12. During the **last three months**, did the **total** number of employees in your firm increase, decrease, or stay about the same? 19-21
1 Increased by ____ employee(s)
2 Decreased by ____ employee(s)
3 Stayed the same

12a. If the **total number** of employees increased or decreased, was this change due primarily to **seasonal factors** affecting your business? 22
1 Yes
2 No

13. In the **next three months**, do you expect to increase or decrease the total number of people working for you? 23
1 Increase
2 Keep the same
3 Decrease

14. Do you have any job openings that you are **not** able to fill right now? 24
1 Yes, for skilled labor
2 Yes, for unskilled labor
3 Yes, both skilled and unskilled labor
4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation): 25
1 Less than one month
2 One month, but less than three months
3 Three months, but less than six months
4 Six months or more

15. During the last three months, did you increase or decrease your inventories? 26
1 Increase
2 About the same
3 Decrease
4 Not appropriate

15a. If increase or decrease, by approximately what percent? 27
1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate? 28
1 Too large
2 About right
3 Too low
4 Not appropriate

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them? 29
1 Add
2 Keep the same
3 Decrease
4 Not appropriate

(See next page)

17 If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐ 1 Much higher
☐ 2 Higher
☐ 3 Same
☐ 4 Lower
☐ 5 Much lower
☐ 6 Don't know
☐ 7 Inapplicable, do not borrow regularly 30

17a Are these loans easier or harder to get than they were ***three months ago***?

☐ 1 Easier
☐ 2 Same
☐ 3 Harder
☐ 4 Don't know 31

17b Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐ 1 Easier
☐ 2 Same
☐ 3 Harder
☐ 4 Don't know 32

18 If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33-35

19 During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles	☐ 1 Yes	36
Additional Buildings	☐ 1 Yes	37
Improved Buildings	☐ 1 Yes	38
Additional Land	☐ 1 Yes	39

19a ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐ 1 under $1,000
☐ 2 $1,000-4,999
☐ 3 $5,000-9,999
☐ 4 $10,000-19,999
☐ 5 $20,000-49,999
☐ 6 $50,000-99,999
☐ 7 $100,000-499,999
☐ 8 $500,000-999,999
☐ 9 $1 million or more 40

20 Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐ 1 Yes
☐ 2 No
☐ 3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21 Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐ 1 Increase
☐ 2 Keep the same
☐ 3 Decrease
☐ 4 Don't know 42

21a If Increase or Decrease, by what percentage on average?

☐ 1 1-2%
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10%
☐ 7 Don't know 43

22 Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐ 1 Increased
☐ 2 Kept the same
☐ 3 Decreased 44

22a If Increased or Decreased, by what percentage on average?

☐ 1 1-2%
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10% 45

23 Please indicate the geographical area that best describes the community in which your business is located

☐ 1 A metropolitan/urban area (population of over 100,000 in city and immediate area)
☐ 2 A small city (population over 15,000 but under 100,000 in city and immediate area) 46
☐ 3 A rural area (population under 15,000 in city and surrounding communities)

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MR GREG CHRIS
CONGRESSIONAL INFO SVC SRI
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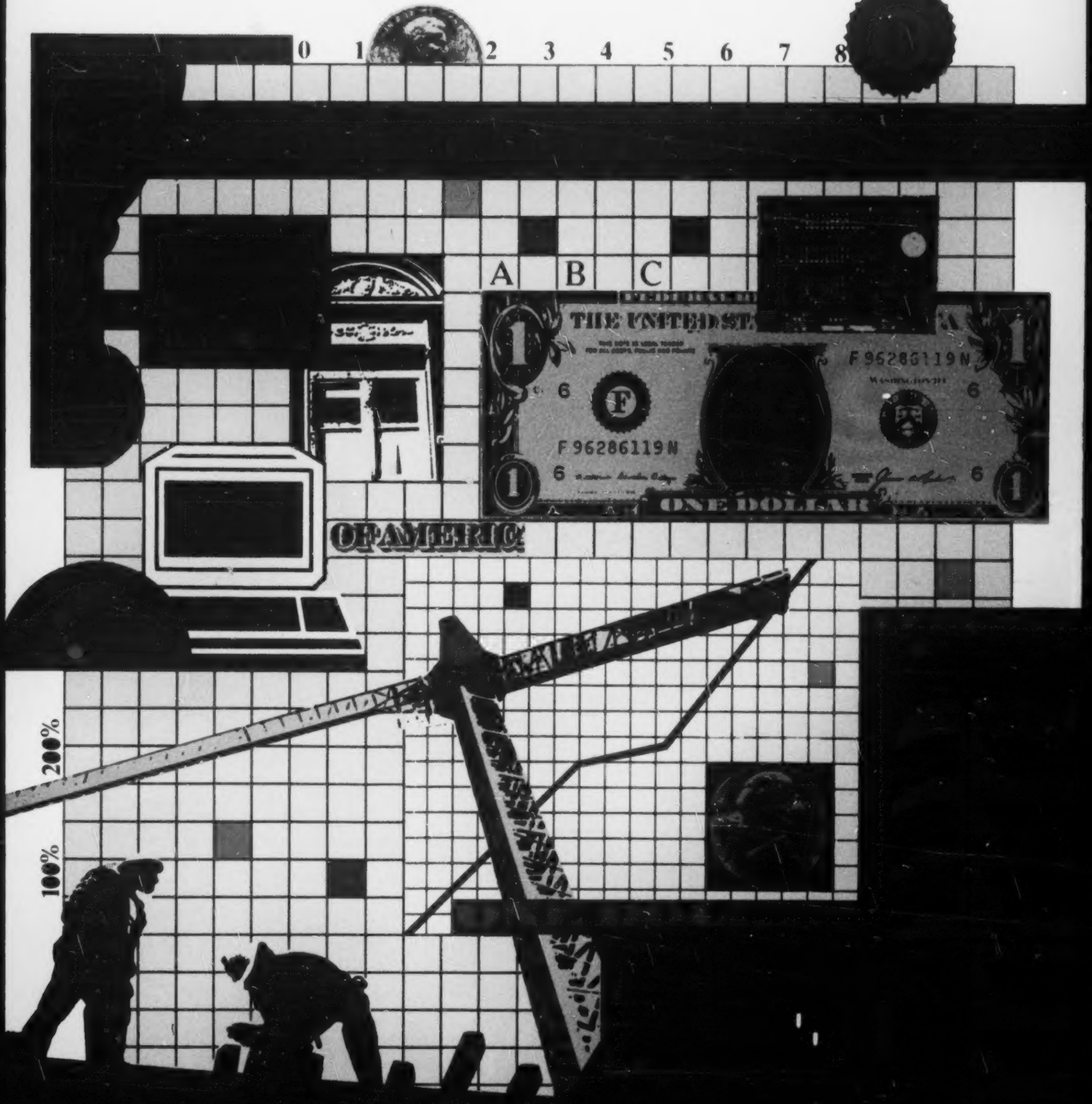
QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

OCTOBER 1989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Quarterly Economic Report for Small Business

October 1989

Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 65)

The 65th in series of quarterly economic reports based on survey data obtained during October 1989 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

Small business economic activity did not change perceptibly between July and October, though the level of activity was generally favorable. Further, small business owners expected economic activity to modestly improve for the remainder of the year. The Index of Small Business Optimism edged back up to last January's level, principally as a result of a more positive outlook. Small business owners felt little change in their individual situations, but believed overall conditions had bottomed and were now on the upward path.

No factor dominated the third quarter. The most favorable news was that interest rates fell 6/10's of a percentage point. Yet, the frequency of capital expenditures only edged higher while the frequency of net inventory accumulations crept lower, leaving small business owners generally satisfied with current inventories. Sales, as measured by the Index of Small Business Sales, fell in the third quarter compared to the second though earnings, as measured by the Index of Small Business Earnings, rebounded after two declining quarters. New employment was moderate. However, the continuing high level of current job openings indicated small business owners were having difficulty locating enough qualified people. The frequency and rate of employee compensation increases did not change in the third quarter from the second; they have changed little in five quarters. Average selling prices proved more complicated. The frequency of selling price increases moved down compared to July, but they moved up compared to September. While the third quarter showed once again that the run-up in prices early in the year was a one-time phenomenon, the degree to which the frequency of average selling price increases will fall further before leveling out - if any - remained an open question.

Small business owners believed economic activity would increase in the fourth quarter. Differing from early in the year when their individual situations appeared better than their view of general conditions, the reverse was the case in October. The outlook, particularly Expected General Business Conditions, lead. But sales expectations also grew more favorable as did expected credit conditions. Plans tended to be flat, however. Planned capital expenditures were unchanged from July, though at a relatively high level. Planned inventory accumulations edged up from a near expansion low. Planned employment changes were stronger, but the difficulty locating people will make realizing them difficult. Moreover, plans to raise average selling prices slipped higher, suggesting that inflation has stabilized at a rate greater than desirable. The regional Indices of Small Business Optimism showed a continued homogenization. The stark regional differences which have characterized small business conditions throughout much of the 1980s appeared to be narrowing.

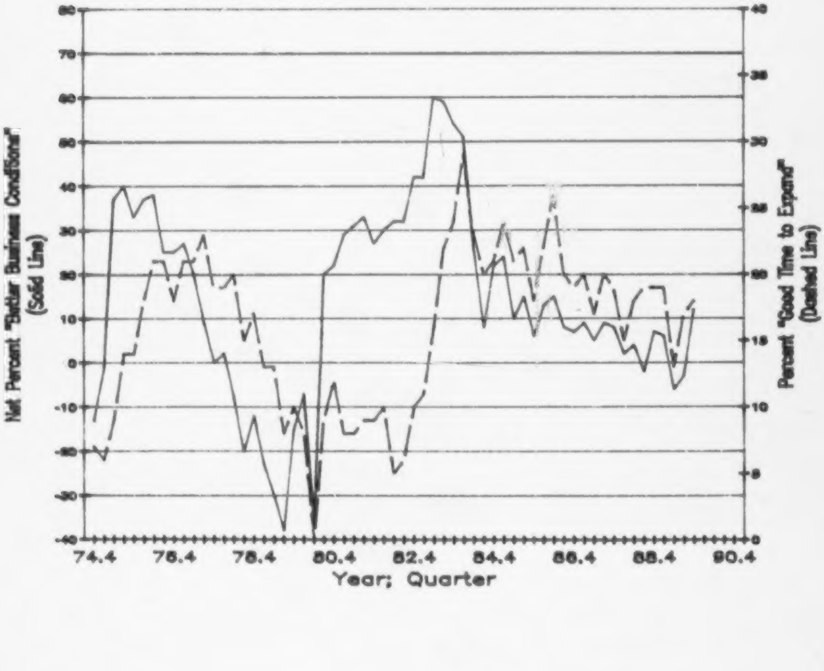
Outlook

The small business outlook continued to improve in October. Having reached a nine year low in April by one outlook measure and a six year low by another, the last two quarterly reports indicated rising sentiment among the nation's small business owners (Chart 1). Owners believed business conditions were reasonably good and that they would improve.

For the first time in two quarters, more small business owners believed that general business conditions would improve in the next three to six months than believed they would deteriorate. Twenty

Chart 1

EXPECTED GENERAL BUSINESS CONDITIONS AND THE CLIMATE FOR SMALL BUSINESS EXPANSION



(20) percent thought conditions would get better compared to 13 percent who took the opposite view (Table 1). Just six percent "Didn't Know," a decline in uncertainty from that occurring in the latter portion of 1988.

The rise from July's level was substantial and placed the relative measure of the small business outlook at its highest level in 13 quarters. The rebound suggests that small business owners have already seen the "soft landing" and are expecting another expansion, a view at odds with most economists. Yet, small business owners have been consistent. They have continued to be generally optimistic when the consensus view has ranged from moderate expansion to imminent recession.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Much Better	1	2	2	2	1	1	1
Better	19	19	17	20	17	14	19
Same	55	55	53	58	54	58	60
Worse	15	16	15	11	19	19	12
Much Worse	2	1	1	2	2	2	1
Don't Know	7	6	11	7	7	6	6
No Answer	1	1	1	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The Climate for Small Business Expansion moved higher on a seasonally adjusted basis. However, the absolute number believing it a good time for small business expansion was 15 percent, down two percentage points from July (Table 2). Despite the July to October seasonal increase, the absolute measure of small business outlook was not strong. Half of the quarterly readings over the last three years were higher and half were lower, and the last three years produced the lowest numbers in the expansion. Still, the trend in the climate for expansion is favorable and the outlook is much improved compared to April.

A more optimistic view of the climate for small business expansion cannot be tied to any particular factor. "General Economic Conditions" was cited most frequently to support whatever the view held (Chart 2). "Sales Prospects" was also important among those believing it a good time for expansion.

Neither financing nor expansion costs appeared to have much influence on small business owner views. Despite declining interest rates, somewhat fewer cited "Financing" as the most important reason for a favorable view in October than in July and about the same number offered it for a negative view. However, the number citing

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

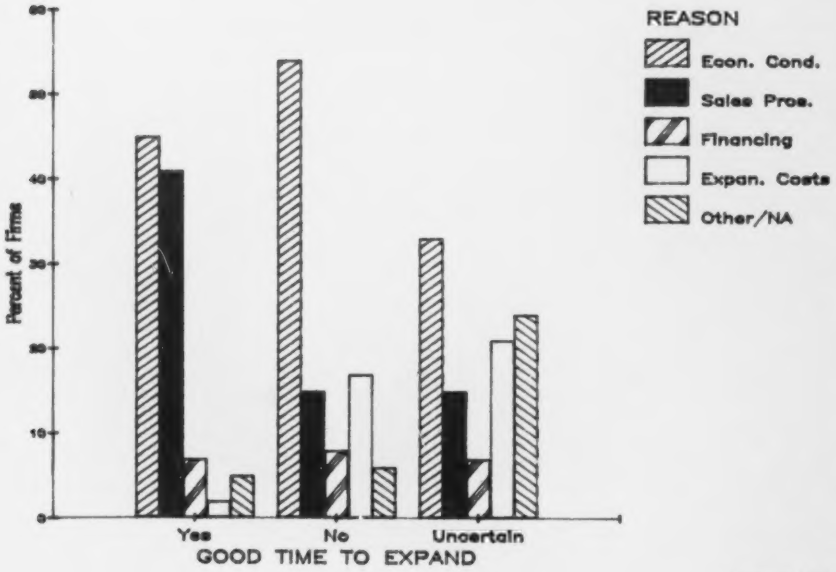
GOOD TIME TO EXPAND	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Yes	16	16	16	17	16	17	15
No	53	49	47	44	48	45	46
Uncertain	31	34	37	38	35	37	38
No Answer	1	1	*	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

"Finance" among the "Uncertain" group was halved. The same pattern generally held with expansion costs. The only group affected was the "Uncertain." The number citing "Expansion Costs" rose four percentage points.

Chart 2

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Source: NFIB

Credit Conditions

Interest rates on short-term business loans declined between July and October. Still, rates in October, 1989, were more than half a percentage point higher than one year ago. While small business owners believed credit conditions would improve further in the next three months, they saw only modest change.

Interest rates on short-term loans (one year or less duration) declined 60 basis points from the prior quarter. Small business owners paid an average of 12.2 percent over the last three months. With over half of the short-term loans now tied to the prime rate or some other variable measure (Table 3), the summer's fall in the prime eventually was seen in lower small business rates.

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1986	1987	1988	1989			
RATE	OCT	OCT	OCT	JAN	APR	JUL	OCT
Under 10%	11	11	6	2	4	1	1
10%-12%	30	32	38	36	29	24	31
13%-15%	9	7	8	10	13	17	12
16% or More	4	3	2	3	3	2	5
Prime +1	26	27	27	28	25	29	31
Prime +2	17	20	18	18	21	23	18
Prime +3 or More	3	5	4	3	5	4	2
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.8%	11.1%	11.6%	12.0%	12.6%	12.8%	12.2%

*Less than 0.5%

Small business owners believed credit conditions were improving, though they were not as positive as the more favorable interest rate figure would suggest. A greater number still reported interest rates higher (10 percent) than lower (7 percent) (Table 4). However, October represented a substantial improvement from July and April. The same was true of loan availability. Seven percent reported the availability of loans "Harder" in the third quarter than in the second. October's figure was one percentage point better than July's and four percentage points better than April's (Table 5).

Regular borrowing activity remained modest. Just 36 percent classified themselves as regular borrowers (borrowing at least once a quarter) in October. The quarter's comparatively low figure (Chart 3) reflects both a reduction in inflation and generally favorable earnings. (See, Prices and Earnings.) High inflation forced small business to finance a constant amount of goods with more dollars. More favorable earnings (also tied to lower inflation) allowed small business owners to finance their purchases without the need to borrow.

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1986 OCT	1987 OCT	1988 OCT	1989 JAN	APR	JUL	OCT
Much Higher	*	1	1	2	7	1	1
Higher	2	25	22	25	29	14	9
Same	14	11	13	9	4	12	18
Lower	23	1	1	1	*	7	7
Much Lower	1	*	*	*	*	*	*
Don't Know	1	1	1	1	1	1	1
Inapplicable (borrow infrefrequently;no answer)	59	61	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Table 5

AVAILABILITY OF LOANS COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1986 OCT	1987 OCT	1988 OCT	1989 JAN	APR	JUL	OCT
Easier	3	2	1	1	1	1	1
Same	29	27	28	27	27	25	26
Harder	7	8	7	8	11	8	7
Don't Know	2	2	2	2	2	1	2
Inapplicable (Don't Borrow; No Answer)	59	62	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners believed that credit conditions would improve somewhat in the fourth quarter. Seven percent forecast that credit conditions would be "Harder" in the fourth quarter than in the third (Table 6). But the figure represented a one point improvement from July and a six point improvement from April. Seven percent is historically a moderate number.

Prices

Compared to July, October brought good news on inflation. Compared to September, October brought bad news. But whatever period used to compare, October's small business price report was substantially better than April's.

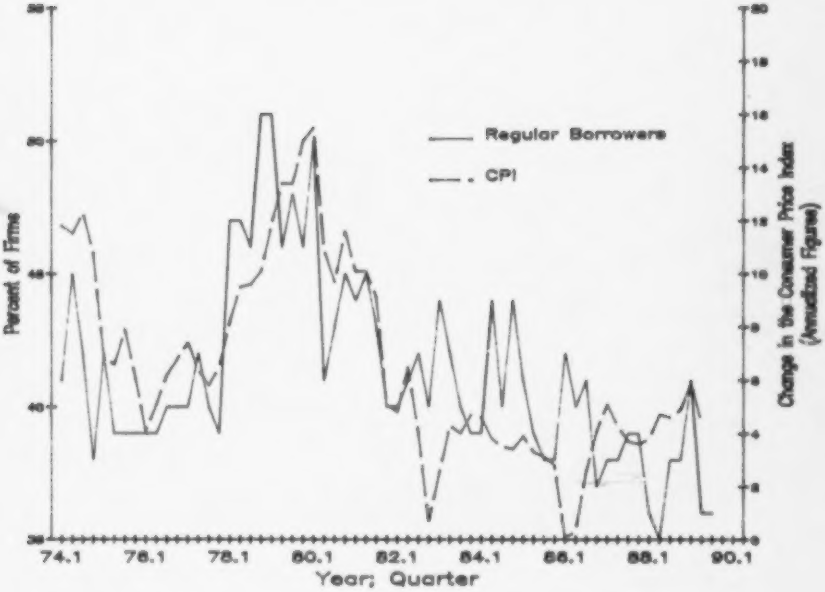
Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER COMPARED TO THE CURRENT QUARTER

CREDIT	1986	1987	1988	1989			
EXPECTATIONS	OCT	OCT	OCT	JAN	APR	JUL	OCT
Easier	3	2	2	1	1	1	1
Same	26	24	24	24	23	23	24
Harder	9	9	9	9	13	8	7
Don't Know	3	4	3	4	4	3	4
Inapplicable (Don't Borrow; No Answer)	59	61	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Chart 3

PERCENT OF "REGULAR" BORROWERS AND THE CONSUMER PRICE INDEX



Twenty-eight (28) percent reported increasing prices the prior three months (Table 7) October represented a one percentage point improvement from July and an eight point improvement from April (Chart 4). However, October was a two percentage point deterioration from September.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Lower Now	14	9	8	8	9	9	9
No Difference	63	63	59	58	52	59	61
Higher Now	19	23	29	29	36	29	28
Less than 1%	1	1	*	1	*	1	1
1.0-1.9%	2	3	4	4	4	3	4
2.0-2.9%	3	4	4	5	5	5	5
3.0-3.9%	2	3	5	4	5	4	3
4.0-4.9%	3	2	4	4	5	4	4
5.0-7.9%	4	4	6	6	9	6	6
8.0-9.9%	1	1	1	1	2	1	1
10% or More	2	4	4	3	4	4	3
No Answer	1	1	1	1	2	1	1
No Answer	4	5	4	5	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%

* Less than [illegible]%

October's numbers brought the frequency of small business price increases down to a level typical of 1988. Eight of the 12 months last year produced a 28 percent figure. However, the 1988 level and the current one are generally the highest since the early 1980s.

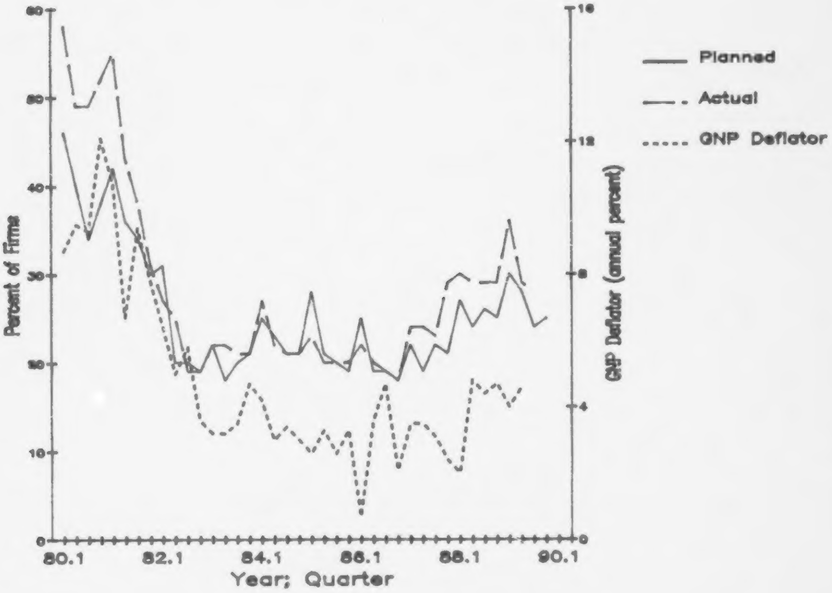
The inflation rate probably will not improve in the next three months, either. Twenty-five (25) percent planned price increases in the next three months (Table 8), suggesting an inflation rate of between four and four and one/half percent. But the number planning price increases in October was one percentage point higher than in July and a sharp four percentage point increase from September. As a result, the trend which has been clear since early in the year is now clouded.

Compensation

The rate of employee compensation increase has been higher in 1989 than at any point in the expansion. However, compensation increases appeared moderate and have not been the major factor driving prices upward. Small business owners did not plan to increase the frequency of average compensation increases in the next three months either, though government mandated increases will make them difficult to avoid.

Chart 4

THE FREQUENCY OF PLANNED AND ACTUAL
PRICE INCREASES



Twenty-six (26) percent reported raising employee average compensation over the last quarter (Table 9). The average increase among those raising compensation was 5.7 percent. The former was the same as in July and the latter a bit lower. In fact, four of the last five quarters produced 26 percent with average compensation increases. The 1986 quarterly average was only 20 percent.

The number planning to raise average employee compensation over the next three months rose 2 percentage points to 20 percent (Table 10). The average increase among those planning increases was 5.6 percent. These data suggest small business owners planned no departures from the current level of compensation increases. However, a large increase in FICA taxes scheduled for January and minimum wage boosts (in April) will almost certainly undermine these plans. A timing problem may cause these looming increases not to be factored in. The annual spike in compensation plans occurs in January rather than in October. But it is likely that many are currently unaware of the mandated increases (or have not yet focused on them) and their impact on average employee compensation.

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED	1986	1987	1988		1989		
PRICE CHANGES	OCT	OCT	OCT	JAN	APR	JUL	OCT
Lower	4	3	3	2	3	3	3
No Change	60	56	56	49	51	59	56
Increase	18	21	25	30	28	24	25
Less than 1%	1	1	*	*	*	*	1
1.0-1.9%	2	1	3	3	3	3	2
2.0-2.9%	3	4	4	4	5	4	4
3.0-3.9%	2	3	4	4	4	3	3
4.0-4.9%	2	2	3	4	4	3	4
5.0-7.9%	3	6	7	9	7	6	6
8.0-9.9%	1	1	1	1	1	1	1
10% or More	2	2	3	3	3	3	3
Don't Know	2	1	*	3	1	1	1
Don't Know	14	14	12	13	14	12	14
No Answer	4	6	4	6	4	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 9

CHANGE IN AVERAGE COMPENSATION OVER THE PAST THREE MONTHS

COMPENSATION	1986	1987	1988		1989		
CHANGE	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increased	18	22	26	24	26	26	26
1-2%	2	3	3	3	3	4	4
3-4%	5	5	8	7	7	6	8
5-6%	5	7	7	7	7	9	7
7-8%	2	3	3	3	3	3	3
9-10%	2	2	2	2	3	3	2
Over 10%	1	1	2	5	2	1	2
No Answer	1	1	1	*	1	*	*
Same	72	70	67	69	68	67	68
Decreased	2	1	1	1	1	1	*
No Answer	8	7	6	6	5	6	6
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	6.0%	5.9%	5.8%	5.9%	5.9%	6.0%	5.7%
All Firms	1.1%	1.3%	1.5%	1.4%	1.5%	1.5%	1.5%

* Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS

COMPENSATION	1986	1987	1988	1989			
CHANGE	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increase	16	19	21	24	22	18	20
1-2%	2	2	2	2	2	2	2
3-4%	5	6	7	7	6	6	5
5-6%	5	7	7	9	7	6	7
7-8%	2	1	1	2	2	2	2
9-10%	1	1	2	2	2	1	2
Over 10%	*	1	1	1	1	*	1
Don't Know	1	1	1	1	1	*	1
No Answer	*	*	*	*	1	1	*
Same	67	67	66	63	66	69	65
Decrease	2	1	1	1	*	1	1
Don't Know	11	9	10	9	10	9	11
No Answer	4	4	2	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.6%	5.5%	5.4%	5.9%	5.8%	5.6%	5.6%
All Firms	0.9%	1.1%	1.1%	1.4%	1.3%	1.0%	1.1%

*Less than 0.5%

Sales

Small business sales have held up well over the last three to four years. The trendline has been flat, though at a relatively high level. However, about one in ten small business owners still considers "Poor Sales" his single most important problem. (See, Single Most Important Problem.)

Thirty-three (33) percent reported higher sales in the third quarter than in the second compared to 23 percent who reported them lower (Table 11). However, the Index of Small Business Sales (seasonally adjusted) fell in October (Chart 5). The decline from July was not sharp, but it represented the third consecutive quarterly fall. Sales appearred weaker than throughout most of the expansion.

Sales expectations have been trending slightly downward over the last three years. In October, however, they bucked the trend and moved upward on a seasonally adjusted basis. Forty-three (43) percent expected sales to rise in the fourth quarter compared to the third while 26 percent expected them to decline (Table 12). Small business expectations suggested that Christmas sales will be healthy though not spectacular.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1986	1987	1988	1989			
SALES VOLUME	OCT	OCT	OCT	JAN	APR	JUL	OCT
Much Higher	2	3	3	4	3	3	2
Higher	32	32	32	29	26	36	31
About the Same	41	44	45	40	40	40	43
Lower	20	17	17	22	25	17	20
Much Lower	3	2	2	3	5	3	3
No Answer	2	2	1	2	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1986	1987	1988	1989			
REAL SALES	OCT	OCT	OCT	JAN	APR	JUL	OCT
Go Up A Lot	6	7	9	8	11	6	7
Go Up A Little	31	37	34	36	45	38	36
Stay the Same	28	25	26	29	22	32	27
Go Down a Little	23	21	20	18	14	16	21
Go Down a Lot	7	5	6	4	3	3	5
Don't Know	3	3	3	3	3	3	3
No Answer	2	2	2	2	2	1	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Earnings

The Index of Small Business Earnings began to recover in October following two sharp quarterly declines (Chart 5). Still, third quarter earnings, as measured by the Index, were the poorest excepting the prior quarter since 1985. Twenty-three (23) percent reported higher earnings in the third quarter than in the second compared to 32 percent who reported them lower for the same period (Table 13).

Sales volume was the reason most often cited for lower earnings (Table 14). The 45 percent mentioning sales volume was higher than typical for October. The same was true of factor costs which have generally risen over the last two years. These increases were offset by a decline in "Other/NA." Since "Other/NA" normally signifies that small business owners are experiencing no overriding economic problem, the data in Table 14 indicate that weaker sales and price pressures are currently causing more difficulties than they have in the last few years. However, neither sales nor prices approach the magnitudes they registered in the early 1980's.

Chart 5

INDICES OF SMALL BUSINESS SALES AND EARNINGS

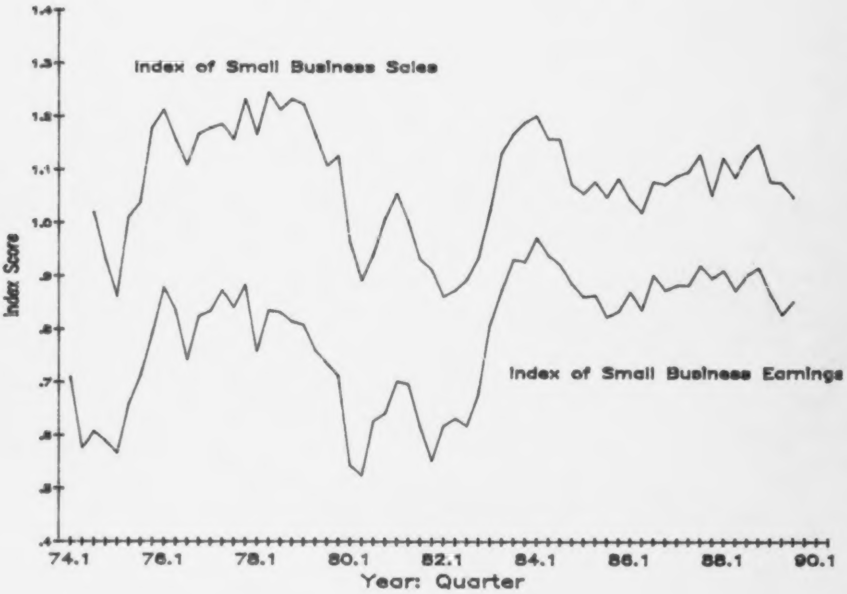


Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Much Higher	2	2	2	2	1	1	1
Higher	22	22	22	21	18	25	22
Same	43	44	46	43	41	41	44
Lower	26	25	25	27	32	28	28
Much Lower	5	3	4	4	5	4	4
No Answer	3	4	2	3	3	1	1
Total	100%	100%	100%	100%	100%	100%	100%

The distribution of reasons cited by those reporting higher earnings in the last quarter remained similar to that found in the last few Octobers. The number citing "Higher Prices" for their increased earnings remained stable. Eleven (11) percent offered "Higher Price," the same proportion as in October, 1988, and about the same as the prior two Octobers. Evidently, small business owners have not been expanding profit margins by raising prices. On the other hand, they do not appear to be getting a break on factor costs, either. Factor prices remained high enough so that profit margins were not expanded through reduced input costs.

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	APR	JUL	OCT
Sales Volume	53	59	58	60	59	56	57
Higher Prices	13	10	11	9	11	8	11
Factor Costs*	7	6	6	6	7	4	7
Seasonality	21	15	19	18	12	27	18
Other; NA	6	10	6	8	11	5	7
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	APR	JUL	OCT
Sales Volume	41	41	39	40	39	42	45
Factor Costs*	21	23	28	21	25	27	27
Seasonality	16	16	17	24	20	15	15
Other; NA	22	20	15	15	16	16	13
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

Employment

Small business owners reported a large number of current job openings, moderate hiring plans, and only moderate employment increases in the third quarter. Labor shortages are having an impact. While small business owners would like to add to payrolls, the number of people available was impeding their efforts.

Sixteen (16) percent increased net employment in the third quarter compared to the second; 10 percent decreased it (Table 15). The average increase was 3.3 employees and the average decrease was 3.0. The result was a net .12 increase per firm, typical of third quarter increases since 1985.

Twenty-three (23) percent reported at least one current job opening (Table 16). The number was one percentage point lower than

July and two points less than last October. The data indicated that the unemployment rate will remain constant or even sneak up a tenth of a percent in the next quarter. October 1989's level of current job openings was similar to those registered throughout 1988 and 1989. The average number of firms with a current job opening in the last two years was 23 percent compared 16 percent in the prior four.

Sixteen (16) percent planned to make net additions to payrolls in the next three months compared to 10 percent who planned net

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Increased	16	16	16	14	14	21	17
Seasonal	5	5	5	5	5	11	6
Non-seasonal	11	11	11	9	9	10	11
Decreased	15	13	13	13	13	11	15
Seasonal	5	4	5	6	4	2	5
Non-seasonal	10	9	8	7	9	9	10
No Change	66	67	69	70	72	68	68
No Answer	3	4	2	3	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	4.1	4.0	3.6	3.9	3.6	4.2	3.3
Employees decreased per firm decreasing	3.4	3.9	3.7	3.7	4.2	3.1	3.0
Average net change per all firms	+1.5	+1.3	+.10	+.05	-.43	+.53	+.12

*Less than 0.5%

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Yes	17	21	25	24	23	24	23
Skilled Labor	12	14	16	15	15	17	15
Unskilled Labor	3	3	4	5	4	3	3
Both	2	4	5	4	4	4	5
No	80	77	74	75	76	75	77
No Answer	3	2	1	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

reductions (Table 17). Plans rose from July on a seasonally adjusted basis. The service sector, particularly the financial and professional services, will lead the way. Both sectors not only reported strong hiring plans, but infrequently reported plans to reduce their employment. The Mid-Atlantic and South Atlantic were the regions where hiring plans were the strongest.

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Increase	14	16	18	20	23	15	16
Keep the Same	75	75	69	69	69	74	73
Decrease	9	8	11	7	5	10	10
No Answer	2	1	2	4	3	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

Small business has kept a tight rein on its inventories throughout the expansion. They entered the fourth quarter reasonably pleased with their current situation, but will exercise considerable caution when adding new stocks.

The caution was evident in the modest net number accumulating inventories in the third quarter. Just 18 percent made net additions to inventories in the last three months compared to 16 percent reducing them (Table 18). However, reflective of slowing sales, net accumulations did not change satisfaction with current inventory levels. Two percent more owners felt their inventories were "Too Large" than felt they were "Too Low" (Table 19). The net -2 percent is a favorable number historically and indicates that on balance small business owners felt comfortable with the current situation.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Increase	21	20	20	17	20	20	18
Same	40	43	46	42	43	44	46
Decrease	18	16	14	19	17	15	16
Not Applicable	19	19	18	19	19	20	19
No Answer	2	2	2	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY	1986	1987	1988	1989			
LEVEL	OCT	OCT	OCT	JAN	APR	JUL	OCT
Too Large	12	10	10	12	11	12	12
About Right	55	57	58	55	56	55	54
Too Low	9	10	10	10	10	10	10
Not Applicable	21	21	20	21	21	19	21
No Answer	3	2	2	2	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%

But while small business owners were comfortable with their current inventory levels, they planned to pare even more. Sixteen (16) percent planned net additions in the coming quarter while 17 percent planned net reductions (Table 20). This level of inventory plans was among the weakest of the expansion although it was a modest improvement from July.

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY	1986	1987	1988	1989			
CHANGE	OCT	OCT	OCT	JAN	APR	JUL	OCT
Add	16	17	17	22	21	16	16
No Change	45	46	44	43	44	46	44
Not Decrease	14	17	12	12	12	15	17
Applicable	20	20	20	20	20	15	17
No Answer	3	3	2	3	3	8	6
Total	100%	100%	100%	100%	100%	100%	100%

Capital Expenditures

The frequency of capital expenditures increased one percentage point between July and October. Fifty-six (56) percent reported making one or more capital expenditures in the last six months (Table 21). Forty-six (46) percent reported expenditures for equipment and vehicles, modestly above the expansion norm. The frequency of investments in buildings and land was typical.

The number investing more than $5,000 was 41 percent, down a percentage point from July and two percentage points from April. The proportion of capital outlays amounting to $50,000 or more fell as well. Just 20 percent of all capital outlays reported in October were $50,000 or more compared to 21 percent in July and 24 percent in April (Table 22).

Table 21

PERCENT MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
All Types+	55%	56%	55%	57%	57%	54%	56%
Equipment/ Vehicles	42	44	44	49	46	45	46
Add Buildings	6	7	7	7	8	7	6
Improved Buildings	16	16	18	14	16	15	16
Land	3	4	4	4	4	4	4

+Percent of firms making one or more capital expenditures

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Under $1	7	8	7	6	6	4	7
$1 - 4	23	22	20	22	19	18	20
$5 - 9	15	13	13	13	16	13	16
$10 - 19	21	18	21	22	17	24	21
$20 - 49	17	18	17	18	18	20	16
$50 - 99	7	9	11	9	10	9	8
$100 - 499	8	9	8	8	11	11	10
$500 - 999	1	2	2	1	2	*	2
$1,000 or More	2	1	1	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Planned capital outlays on a seasonally adjusted basis were unchanged in October from April and July, and were just three points below the survey record levels recorded in January and October, 1988. Thirty-one (31) percent planned one or more capital outlays in the next three to six months (Table 23). The caution recently shown on inventory accumulations has not been evident on capital outlays suggesting that many capital outlay projects are designed to improve efficiency rather than expand capacity. A decline in interest rates should spur this type of investment while ebbing sales should inhibit expenditures for expansion.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
Yes	29	30	34	36	33	31	31
No	54	55	50	48	52	55	54
Don't Know	12	12	11	13	11	11	12
No Answer	5	3	5	3	4	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Single Most Important Problem

The distribution of the single most important small business problem has not noticeably changed over the last few years. Since 1984, "Taxes" has been most frequently cited as the single most important problem. Twenty-two (22) percent mentioned "Taxes" in October, one percentage point more than in July and one percentage point less than one year ago (Table 24).

"Government Regulation/Red Tape" received the second most cites - 16 percent. Owners of transportation/communication, agricultural, and professional service firms were the most likely to list the problem. Three different problems were cited with third greatest frequency as the single most important problem. Eleven (11) percent mentioned each "Poor Sales," "Competition from Large Firms," and "Quality of Labor." The frequency with which all four have been cited has not changed over the last few years, more evidence of the relative stability of economic conditions since the mid-1980s.

The only significant movement in the single most important problem data between July and October occurred in the number citing "Interest Rates & Financing." Seven percent cited the problem in October, down three percentage points from July and four from April. The decline followed the path taken by interest rates over the period. (See, Credit Conditions.)

Four percent believed "Inflation" to be their single most important problem. While two percentage points higher than last October, the month's level not only fell just two points above the survey record low but also showed no change from July. Inflation was no serious problem to most small business owners.

Index of Small Business Optimism

The Index of Small Business Optimism moved higher in October on a seasonally adjusted basis. The Index rose from 99.8 in July to 102.1 (100=1978) (Table 25), though it was lower than September's level. Chart 6 demonstrates how well small business owners believed the economy was holding up. They saw no evidence of an approaching recession.

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	Prior High %	Prior Low Date	Prior Low %	1989 JAN Rank	1989 JAN %	1989 APR Rank	1989 APR %	1989 JUL Rank	1989 JUL %	1989 OCT Rank	1989 OCT %
Taxes	7/88+	25	10/74	8	1	22	1	22	1	21	1	22
Inflation	10/74	41	10/87+	2	8	3	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	~~1~~	4	10	4	10	3	10	3	11
Interest Rates & Financing	4/82+	37	7/77	4	6	9	3	11	3	10	6	7
Cost of Labor	7/77	9	7/82	2	7	5	7	7	7	7	7	6
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	16	2	16	2	17	2	17
Competition from Large Business	10/76	13	4/80+	4	3	12	5	9	3	10	3	11
Quality of Labor	10/88+	12	1/83+	3	4	10	5	9	3	10	3	11
Shortage of Fuel Material, Goods	1/74	23	1/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	13	-	12	-	11	-	11
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
+ Most recent

Table 25

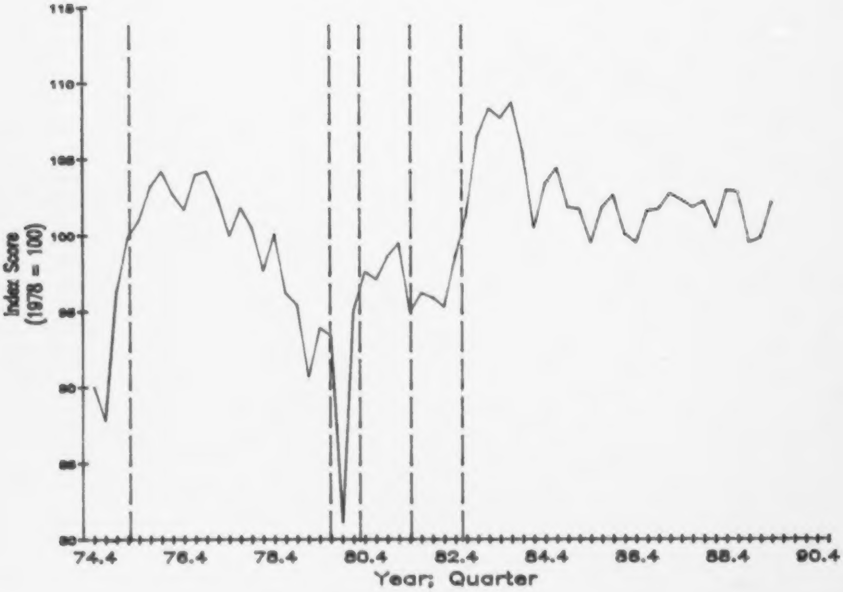
INDEX OF SMALL BUSINESS OPTIMISM BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 OCT	1987 OCT	1988 OCT	1989 JAN	1989 APR	1989 JUL	1989 OCT
General Expectations[1]	105.0	107.5	107.3	110.5	110.3	107.8	108.3
Current Status[2]	100.0	105.7	106.3	104.3	101.3	106.0	104.4
Spending Plans[3]	108.7	112.0	113.7	119.7	120.0	112.3	112.0
Index*	105.2	108.3	103.7	111.4	110.5	108.6	108.1
Index (1978=100)+	99.5	102.3	102.9	102.8	99.5	99.8	102.1

*Index numbers
+Seasonally Adjusted
[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



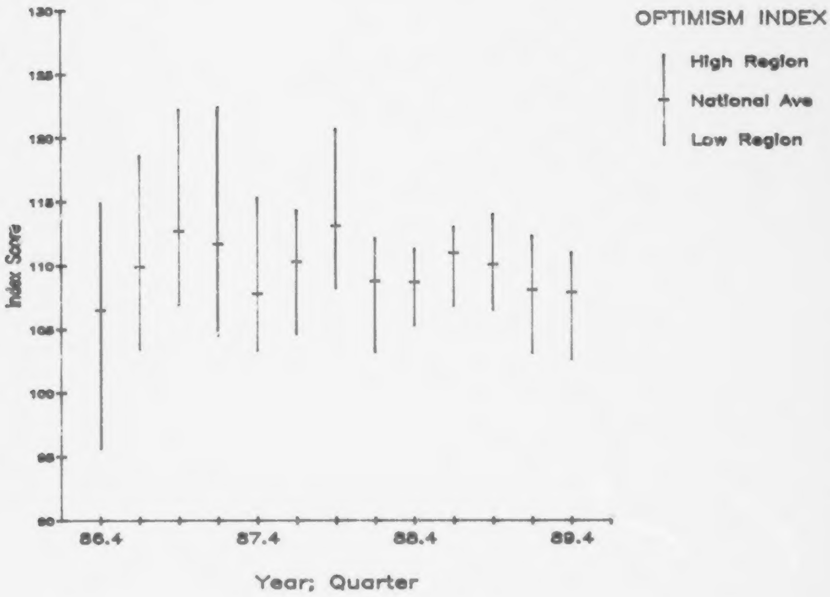
Regional Conditions

Regional differences in small business conditions continue to be a major theme of these reports. October was no different. The regional Indices of Small Business Optimism ranged from the Pacific's 111.0 to the East South Central's 102.6. Three regions produced indices above the national average - Pacific, Mid-Atlantic and South Atlantic. In fact, the Mid-Atlantic region almost caught the Pacific which would have made it the nation's most optimistic for the first time since the survey began. Three regions were at the national average - Great Lakes, New England and Mountain. The remaining regions - Plains, West South Central and East South Central - fell below.

Regional differences have been narrowing, however. The extremes are no longer as great as they once were. Chart 7 illustrates the narrowing gap. Three years ago, the difference between New England which provided the highest index and the West South Central which provided the lowest was 20 index points. In October, the difference between highest and lowest regions was just over eight. These narrowing differences were the result of the more optimistic regions and the more pessimistic regions moving toward the middle. The regions doing very well were not doing quite as well and those doing poorly were not doing quite as poorly.

Chart 7

HIGHEST, LOWEST AND AVERAGE OPTIMISM INDEX
SCORE BY REGION



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms Oct 1989
Less than $50,000	6	5	1	2	6	10	7	17	14	8
$50,000-99,999	7	4	6	4	10	12	12	12	14	9
$100,000-199,000	12	15	9	4	19	29	20	19	18	16
$200,000-349,000	13	13	13	7	15	12	13	19	22	15
$350,000-799,999	22	16	22	10	21	15	14	20	12	18
$800,000-1,499,999	17	18	17	17	14	11	17	7	9	14
$1,500,000-2,999,999	7	13	13	20	6	1	7	3	5	8
$3,000,000 or more	14	14	19	33	8	9	6	3	5	11
Not Ascertained	2	2	*	3	3	1	4	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	243	256	54	135	495	81	141	243	140	1797
Percent of Firms	14	14	3	7	28	4	8	14	8	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms Oct 1989
1	5	4	6	4	7	16	9	13	5	7
2	5	3	11	8	7	9	9	11	17	8
3 - 5	27	23	23	22	33	37	39	28	31	30
6 - 9	17	15	20	10	20	16	18	21	22	18
10 - 14	15	15	9	17	13	10	8	10	4	12
15 - 19	8	8	7	10	6	3	4	3	5	6
20 - 39	12	15	15	13	8	7	7	9	6	10
40 or more	10	16	9	14	5	2	3	5	9	8
No Answer	1	1	*	2	1	*	3	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship
2 Partnership
3 Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle *the one* which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, *etc.*)
2 Manufacturing and mining (including dairy processor, printer, publisher, *etc.*)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, *etc.*)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., *etc.*) 2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, *etc.*)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, *etc.*
7 Financial, insurance, real estate, bank, savings & loan, *etc.*
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, *etc.*
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, *etc.*
10 Other (please describe)____________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

1 Taxes
2 Inflation
3 Poor sales
4 Interest rates & financing
5 Cost of labor
6 Government regulation(s) & red tape
7 Competition from large businesses
8 Quality of labor
9 Shortage of fuels, materials or goods 3
0 Other____________________
(please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

1 Yes
2 No
3 Uncertain 4

4a. Why? (Circle **ONE** answer — ***most important reason***)

1 Economic conditions
2 Sales prospects
3 Financing & interest rates
4 Cost of expansion
5 Other____________________ 5
(please explain)

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

1 Much better
2 Somewhat better
3 About the same
4 Somewhat worse
5 Much worse 6
6 Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

1 Under $12,500
2 $12,500–24,999
3 $25,000–49,999
4 $50,000–87,499
5 $87,500–199,999
6 $200,000–374,999
7 $375,000–749,999 7
8 $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

1 Much higher
2 Higher
3 About the same
4 Lower
5 Much lower 8

6b. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50% 9
8 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

1 Much higher
2 Higher
3 About the same
4 Lower
5 Much lower 10

7a. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50% 11
8 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

1 Sales volume   4 Availability of materials   6 Financing costs   12
2 Labor costs   5 Received higher prices for your product or service   7 Usual seasonal change
3 Cost of materials   8 Other ______________________ (Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

1 Go up a lot   3 Stay the same   5 Go down a lot   13
2 Go up a little   4 Go down a little   6 Don't know

9. How are your average selling prices now compared to three months ago?

1 Lower now   2 No difference   3 Higher now   4 Don't know   14

9a. If ***higher or lower***, by what percent, on an average?

1 Less than 1%   3 2.0–2.9%   5 4.0–4.9%   7 8.0–9.9%   9 Don't know   15
2 1.0–1.9%   4 3.0–3.9%   6 5.0–7.9%   8 10% or more

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

1 Yes, raise prices   2 Yes, lower prices   3 No change   4 Don't know   16

10a. If raise or lower, by what percent, ***on average***?

1 Less than 1%   3 2.0–2.9%   5 4.0–4.9%   7 8.0–9.9%   9 Don't know   17
2 1.0–1.9%   4 3.0–3.9%   6 5.0–7.9%   8 10% or more

11. How many employees do you have full and part-time ***including yourself***?

1 One   3 3–5   5 10–14   7 20–39   18
2 Two   4 6–9   6 15–19   8 40 or more

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

1 Increased by ____ employee(s)   2 Decreased by ____ employee(s)   3 Stayed the same   19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

1 Yes   2 No   22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

1 Increase   2 Keep the same   3 Decrease   23

14. Do you have any job openings that you are ***not*** able to fill right now?

1 Yes, for skilled labor   3 Yes, both skilled and unskilled labor   24
2 Yes, for unskilled labor   4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

1 Less than one month   3 Three months, but less than six months   25
2 One month, but less than three months   4 Six months or more

15. During the last three months, did you increase or decrease your inventories?

1 Increase   2 About the same   3 Decrease   4 Not appropriate   26

15a. If increase or decrease, by approximately what percent?

1 Less than 6%   3 11%–15%   5 21%–25%   7 36%–50%   27
2 6%–10%   4 16%–20%   6 26%–35%   8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

1 Too large   2 About right   3 Too low   4 Not appropriate   28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

1 Add   2 Keep the same   3 Decrease   4 Not appropriate   29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐ 1 Much higher
☐ 2 Higher
☐ 3 Same
☐ 4 Lower
☐ 5 Much lower
☐ 6 Don't know
☐ 7 Inapplicable, do not borrow regularly 30

17a. Are these loans easier or harder to get than they were ***three months ago***?

☐ 1 Easier ☐ 2 Same ☐ 3 Harder ☐ 4 Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐ 1 Easier ☐ 2 Same ☐ 3 Harder ☐ 4 Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ________________ % or Prime + ________________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: ☐ 1 Yes 36
Additional Buildings: ☐ 1 Yes 37
Improved Buildings: ☐ 1 Yes 38
Additional Land: ☐ 1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐ 1 under $1,000
☐ 2 $1,000-4,999
☐ 3 $5,000-9,999
☐ 4 $10,000-19,999
☐ 5 $20,000-49,999
☐ 6 $50,000-99,999
☐ 7 $100,000-499,999
☐ 8 $500,000-999,999
☐ 9 $1 million or more 40

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐ 1 Yes ☐ 2 No ☐ 3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐ 1 Increase ☐ 2 Keep the same ☐ 3 Decrease ☐ 4 Don't know 42

21a. If Increase or Decrease, by what percentage on average?

☐ 1 1-2%
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10%
☐ 7 Don't know 43

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐ 1 Increased ☐ 2 Kept the same ☐ 3 Decreased 44

22a. If Increased or Decreased, by what percentage on average?

☐ 1 1-2%
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10% 45

23. Please indicate the geographical area that best describes the community in which your business is located:

☐ 1 A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
☐ 2 A small city (population over 15,000 but under 100,000 in city and immediate area)
☐ 3 A rural area (population under 15,000 in city and surrounding communities)

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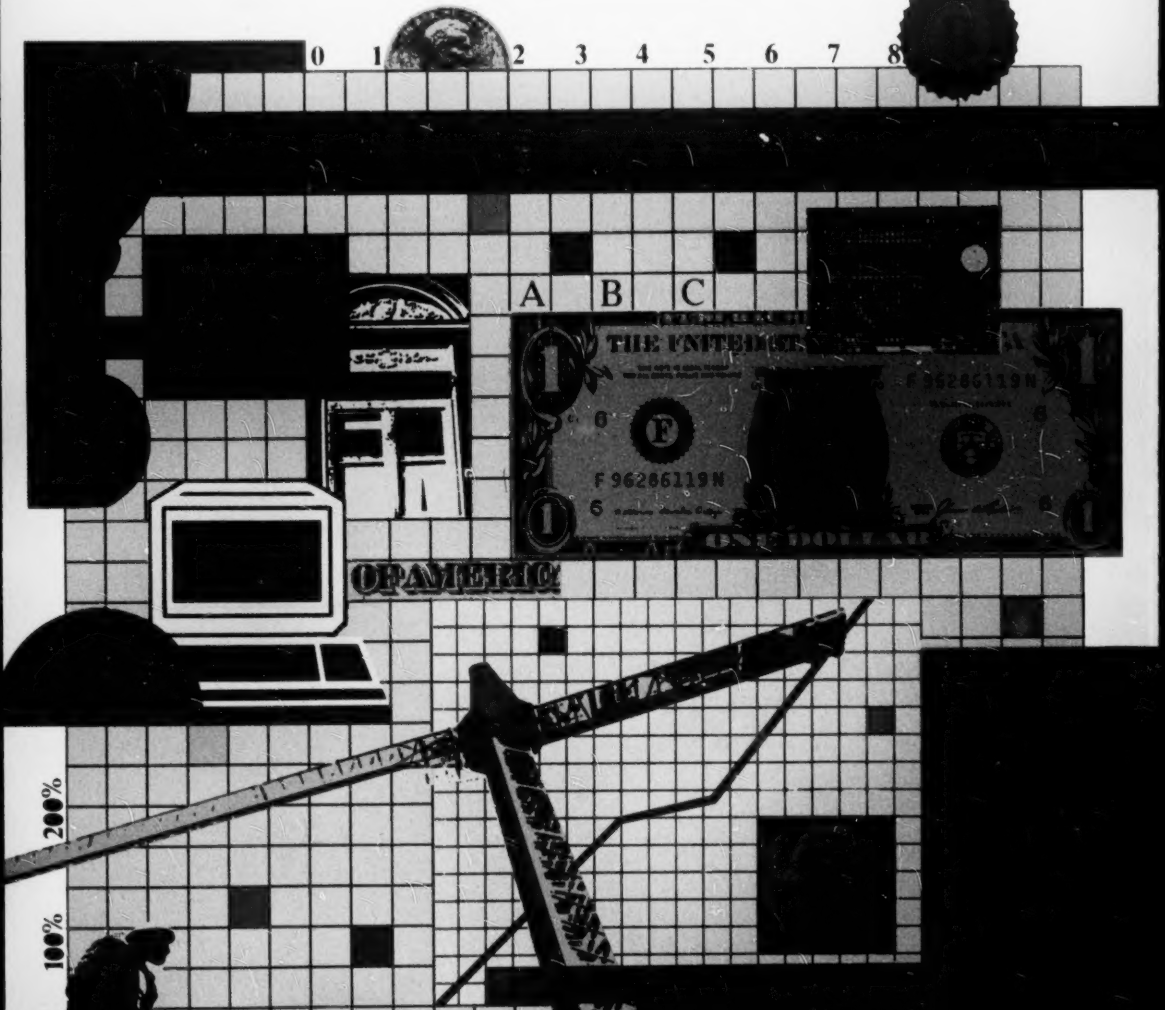
The NFIB Foundation

QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

JANUARY 1990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Quarterly Economic Report for Small Business

January 1990

Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS
(REPORT NO. 66)

The 66th in series of quarterly economic reports based on survey data obtained during January 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

"Stagflation" characterized small business owners' January assessment of current economic conditions and their plans for the coming three months. Small business selling prices resumed their troubling movement upward. But, economic activity again ebbed with no indication that a firm direction would soon be established. Only two indicators of small business activity contained a clear direction. One was up and the other was down. Plans to make capital expenditures, already high historically, grew even stronger in January. The frequency of net earnings increases fell sharply. And, overhanging the slow pace of activity were price conditions reminiscent of the most recent inflation racked year - 1981.

Rising prices were the focus of January report. With a single exception, the frequency of reported price increases in the fourth quarter was the highest since 1981. The rise in the frequency of increases from October was three percentage points, but the disturbing element was that January hastened the relentless upward movement of price increases. Aside from prices, the fourth quarter proved uneventful. Most indicators of economic activity were flat or marginally changed. Credit conditions were typical. They remained unchanged including the 12.2 percent average rate paid on short-term loans. Reported capital expenditures maintained their expansion high levels. Current job openings rose one percentage point seasonally adjusted, though net labor force additions were considerably lower than in the previous quarter. Average employee compensation increases were virtually the same as October's once seasonal factors were eliminated. The net number reducing inventories rose though satisfaction with current inventories fell. The Index of Small Business Sales moved higher while the Index of Small Business Earnings dropped sharply.

Small business owner plans for the next three months indicated that the patterns present in the last months of 1989 will carry into the new decade. The continuity implies more frequent prices increases and ebbing economic activity. In fact, plans to raise prices were the most frequent since 1981 and the Index of Small Business Optimism declined marginally. Small business owners expected no major to occur in the near future. The outlook declined modestly and sales expectations were unchanged, seasonally adjusted. No change in credit conditions was anticipated either. Inventory plans rose and hiring plans fell slightly. However, capital expenditure plans moved up and again approached a survey record high. One other indicator moved sharply higher - plans to raise average employee compensation - a not so gentle reminder that small business price increases were the critical element in January's data.

Outlook

The small business outlook ebbed on a seasonally adjusted basis. But, the decline from October was modest. Both the relative and absolute outlook measures fell. The relative measure was two percentage points lower than it was one year ago as was the absolute figure. Neither was part of a trend, however, as January's figures were at least as favorable as those reported in two of the last three quarters. In fact, the relative outlook was near its 1986 - 1989 average; the absolute outlook was about two percentage points lower than its average for the same period.

Forty-three (43) percent expected general business conditions to improve over the next three to six months and 24 percent expected them to worsen (Table 1). The proportion anticipating better conditions as well as the proportion anticipating worse conditions have remained virtually constant over the last four January's. Thus, not only has the net percentage been stable, but so has its two components, i.e., better, worse. The stability in both components emphasizes how little small business owner views on the economy's direction have changed during the period.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE
NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED	1987	1988	1989		1989		1990
CONDITIONS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Better	2	2	2	1	1	1	2
Better	24	22	20	17	14	19	22
Same	56	54	58	54	58	60	57
Worse	10	16	11	19	19	12	13
Much Worse	2	1	2	2	2	1	1
Don't Know	5	5	7	7	6	6	5
No Answer	1	1	*	*	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Just 15 percent believed that the current climate was good for small business expansion; 54 percent disagreed and believed the climate was not good for small business expansion and 34 percent were undecided (Table 2). Chart 1 presents the reasons given for each owner's views. The distribution of reasons cited in January changed very little from October. The only notable change was a near doubling in the percentage citing "Financing" among those who felt it a good time to to expand. The change suggests that they believed interest rate relief was in sight, but as shown later (see,

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1987 JAN	1988 JAN	1989 JAN	1989 APR	1989 JUL	1989 OCT	1990 JAN
Yes	18	13	17	16	17	15	15
No	49	52	44	48	45	46	50
Uncertain	32	35	38	35	37	38	34
No Answer	1	*	1	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Credit Conditions) rates have been steady and few expect any change in them. A second point deserves mention. The lack of change from October - really a modest reduction - in the proportion citing expansion costs as their reason for an uncertain or negative view of the expansion climate does not reflect price conditions as reported elsewhere (see, Prices and Earnings). While price pressures appear to be intensifying, they are not yet evident in climate assessments or capital outlay plans (Capital Expenditures).

Credit Conditions

Interest rates paid by small business owners on short-term loans did not change between the third and fourth quarters (Table 3). Rates averaged 12.2 percent in the last three months of the year with as many reporting rates higher compared to the third quarter as reporting them lower (Table 4). A greater proportion indicated that loans were "Harder" to obtain in the fourth quarter than the proportion who indicated they were "Easier" to obtain. However, the net percentage was unchanged from October (Table 5). Further, the series consistently finds more small business owners reporting it "Harder" than "Easier." The result is that owners encountered little change in credit conditions over the latter part of 1989.

The number of "regular borrowers" remained low. Just 36 percent reported themselves regular borrowers, one percentage point higher than in October, but among the lowest in the survey's history. Since the decline in inflation rates, the frequency of borrowing has fallen and recent price pressures (see, Prices) has not yet forced them back to the bank.

The net percent expecting credit conditions to ease in the first quarter compared to the fourth was unchanged from October's credit conditions forecast. Two percent believed credit conditions would loosen compared to eight percent who believed they would tighten (Table 6). The net -6 percentage points is the historic norm, indicating that no change is expected.

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION

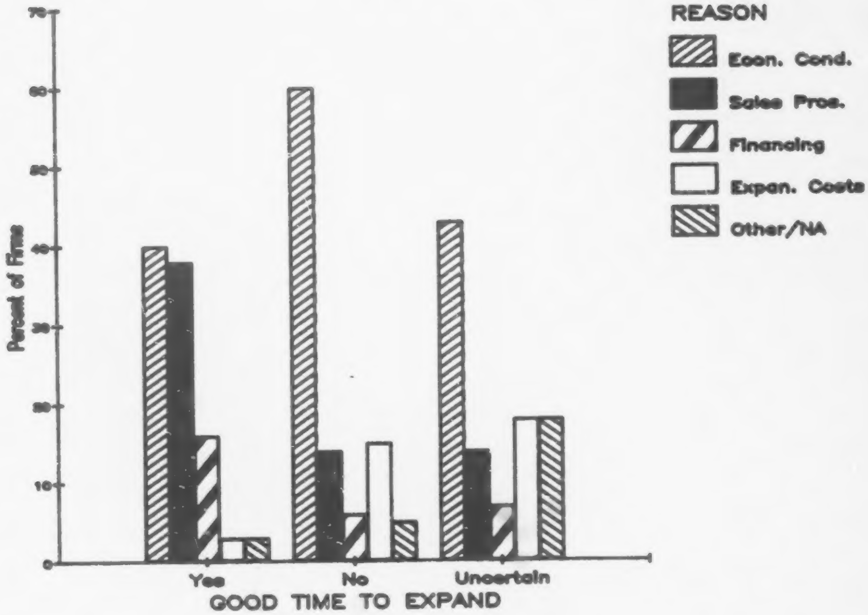


Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1987	1988	1989		1989		1990
RATE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Under 10%	10	5	2	4	1	1	1
10%-12%	32	36	36	29	24	31	32
13%-15%	2	5	10	13	17	12	14
16% or More	5	4	3	3	2	5	3
Prime +1	25	28	28	25	29	31	29
Prime +2	17	17	18	21	23	18	17
Prime +3 or More	4	5	3	5	4	2	4
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.7%	11.1%	12.0%	11.6%	12.0%	12.6%	12.2%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Much Higher	1	*	2	7	1	1	*
Higher	2	12	25	29	14	9	7
Same	18	21	9	4	12	18	21
Lower	15	4	1	*	7	7	7
Much Lower	*	*	*	*	*	*	*
Don't Know	1	1	1	1	1	1	1
Inapplicable (borrow infrequently;no answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Table 5

AVAILABILITY OF LOANS COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Easier	3	1	1	1	1	1	1
Same	24	29	27	27	25	26	25
Harder	7	7	8	11	8	7	7
Don't Know	3	2	2	2	1	2	3
Inapplicable (Don't Borrow; No Answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners have made capital expenditures frequently during the current expansion, particularly over the last year or two (see, Capital Expenditures). They have made them in the face of steep interest rates. Chart 2 presents the average interest rate charged small business owners on short-term loans over the expansion. While capital outlays are normally not financed with short-term money, the chart reflects the cost of longer term financing for small business owners. Matching capital expenditures to interest rates and the change in interest rates suggests that debt financing costs have had virtually no impact on either capital expenditure plans or the frequency of expenditures themselves. Other factors have contributed to the capital expenditure boom, the most important of which is earnings (see, Earnings).

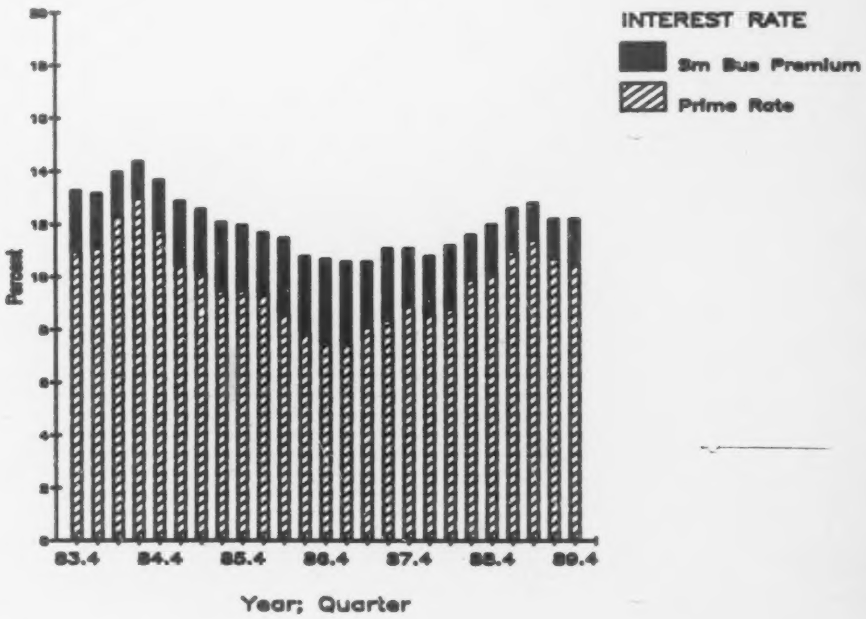
Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER COMPARED TO THE CURRENT QUARTER

CREDIT	1987	1989	1989		1989		1990
EXPECTATIONS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Easier	3	2	1	1	1	1	2
Same	23	26	24	23	23	24	22
Harder	8	9	9	13	8	7	8
Don't Know	3	2	4	4	3	4	4
Inapplicable (Don't Borrow; No Answer)	63	61	62	59	65	64	64
Total	100%	100%	100%	100%	100%	100%	100%

Chart 2

AVERAGE INTEREST RATES PAID BY SMALL BUSINESS OWNERS ON SHORT-TERM LOANS



Prices

Prices took a serious turn for the worse in January creating fears of a renewed bout with inflation. Both the frequency of actual price increases made in the fourth quarter and plans to raise selling prices in the first more closely resembled the early 1980's than the mid or late years of the decade. With a single exception the number of firms reporting higher prices in the fourth quarter than in the third were the most frequent since 1981 as were plans to raise prices in the first quarter. The rise in 1981's Consumer Price Index was 8.6 percent.

Thirty-one (31) percent reported raising average prices in the fourth quarter (Table 7). The number was 5 percentage points lower than last January's expansion high. January's figure was also lower than the levels reported in each of the four months between November, 1988, and February, 1989. The concern, however, is the frequency of price increases declined progressively between January and November (excepting an October uptick) reaching a low of 22 percent. Since November two consecutive monthly increases have pushed the number up nine percentage points and January's plans indicated the frequency would grow.

Nine percent reported lower prices in the fourth quarter than in the third, the same number as in each of the last three quarters.

In January, thirty-two (32) percent planned to raise selling prices in the next three months (Table 8). The survey has not

Table 7

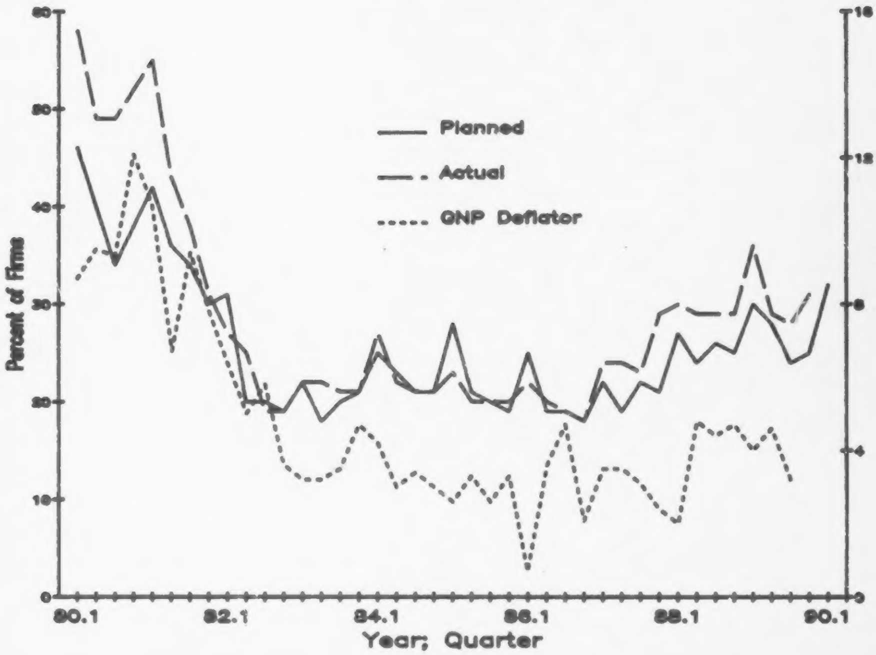
CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1987 JAN	1988 JAN	1989 JAN	1989 APR	1989 JUL	1989 OCT	1990 JAN
Lower Now	12	12	8	9	9	9	9
No Difference	65	57	58	52	59	61	59
Higher Now	18	29	29	36	29	28	31
Less than 1%	1	1	1	*	1	1	*
1.0-1.9%	3	2	4	4	3	4	4
2.0-2.9%	3	4	5	5	5	5	5
3.0-3.9%	2	3	4	5	4	3	4
4.0-4.9%	2	3	4	5	4	4	5
5.0-7.9%	3	6	6	9	6	6	6
8.0-9.9%	1	2	1	2	1	1	2
10% or More	2	8	3	4	4	3	4
No Answer	1	*	1	2	1	1	1
No Answer	5	2	5	3	3	2	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Chart 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



to the rise in the frequency of price increase. Twenty-four (24) percent reported higher average compensation in the fourth quarter than in the third, down two percentage points from each of the last three quarterly benchmarks (Table 9). Two caveats to the decline are necessary. Both are evident on Chart 4. The first caveat is that the data exhibits seasonality. A decline always appears in the fourth quarter. While the series is yet too young to seasonally adjust, seasonal adjustment would probably eliminate the decline altogether. The second caveat is that employee compensation increases have become more frequent during the expansion. The series high - 26 percent - has been reached in four of the last six quarters. These increases may not affect selling prices immediately, but they must at some point and January could be the point.

Plans to increase average compensation moved sharply higher in January. Twenty-six (26) percent planned to raise average compensation in the next three months, up six percentage points from October and two percentage points from January, 1989 (Table 10). The sharp upward move was in part attributable to seasonal factors. However, January, 1990, plans were still above those reported in any

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED	1987	1988	1990		1989		1990
PRICE CHANGES	JAN	JAN	JAN	APR	JUL	OCT	JAN
Lower	3	5	2	3	3	3	3
No Change	55	55	49	51	59	56	50
Increase	22	27	30	28	24	25	32
Less than 1%	*	*	*	*	*	1	1
1.0-1.9%	2	3	3	3	3	2	4
2.0-2.9%	4	3	4	5	4	4	5
3.0-3.9%	3	4	4	4	3	3	4
4.0-4.9%	3	5	4	4	3	4	5
5.0-7.9%	6	7	9	7	6	6	7
8.0-9.9%	1	1	1	1	1	1	1
10% or More	2	3	3	3	3	3	3
Don't Know	1	1	3	1	1	1	2
Don't Know	14	12	13	14	12	14	13
No Answer	6	1	6	4	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

recorded such frequency of planned price increases since July, 1981, when 34 percent planned them. The plans were spread across all industries. Their breadth suggested the problem is not just a temporary one caused by weather or some similar factor. Planned increases were most frequent in wholesale (44 percent), construction (37 percent), services (35 percent), agriculture (34 percent) and retail (33 percent). Only the financial services which are particularly susceptible to interest rate movements seemed immune (15 percent).

Actual price increases historically track planned price increases. The parallel movement indicates that the frequency of small business price increases will rise in the next three months (Chart 3). However, the increases will probably be even more frequent than planned. Once the Consumer Price Index rises above 4 percent, eventual price increases outpace planned increases. The higher the CPI, the greater the discrepancy between plans and actual increases. Thus, April's report will likely show that about 35 percent raised prices in the first quarter.

Reasons for the frequency of price increases are not clear. However, it would appear that a gradual rise in the number increasing employee compensation has begun to have some effect.

Compensation

Changes in the frequency of compensation increases fell in the fourth quarter suggesting that employee compensation is not related

Table 9

CHANGE IN AVERAGE COMPENSATION OVER THE PAST THREE MONTHS

COMPENSATION	1987	1988	1989		1989		1990
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increased	19	23	24	26	26	26	24
1-2%	3	3	3	3	4	4	3
3-4%	6	7	7	7	6	8	6
5-6%	6	6	7	7	7	9	7
7-8%	1	2	3	3	3	3	3
9-10%	1	1	2	3	3	2	3
Over 10%	1	3	5	2	1	2	2
No Answer	1	1	*	1	*	*	1
Same	71	70	69	68	67	68	70
Decreased	2	1	1	1	1	*	1
No Answer	8	6	6	5	6	6	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.4%	6.0%	5.9%	5.9%	6.0%	5.7%	5.8%
All Firms	1.1%	1.4%	1.4%	1.5%	1.5%	1.5%	1.4%

* Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION OVER NEXT THREE MONTHS

COMPENSATION	1987	1988	1939		1989		1990
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increase	20	24	24	22	18	20	26
1-2%	2	2	2	2	2	2	2
3-4%	6	7	7	6	6	5	9
5-6%	7	10	9	7	6	7	9
7-8%	2	2	2	2	2	2	2
9-10%	1	2	2	2	1	2	2
Over 10%	*	1	1	1	*	1	1
Don't Know	1	*	1	1	*	1	1
No Answer	1	*	*	1	1	*	*
Same	65	63	63	66	69	65	61
Decrease	2	2	1	*	1	1	1
Don't Know	9	8	9	10	9	11	10
No Answer	4	3	3	2	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%

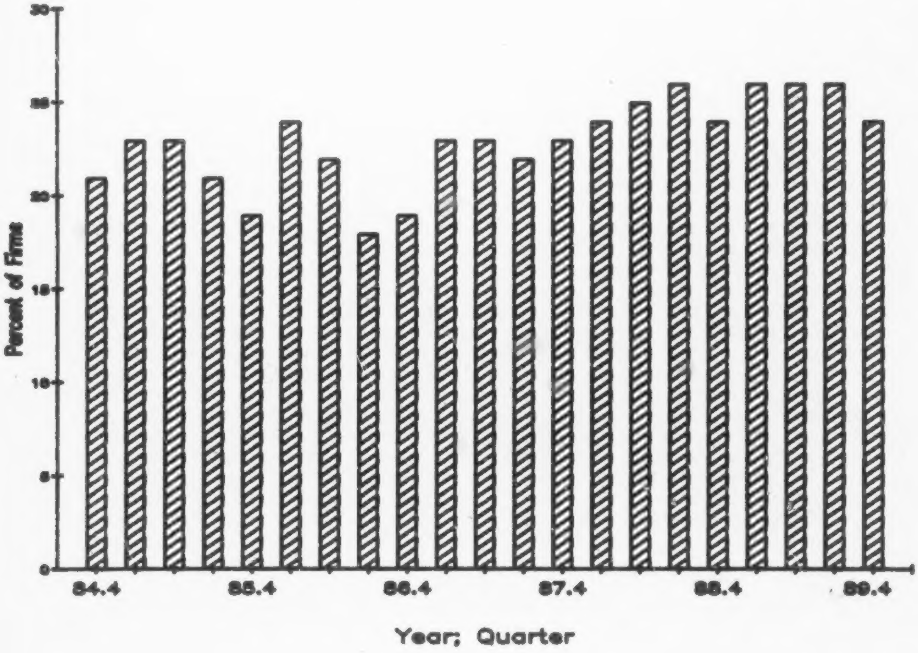
TABLE 10
(continued)

AVERAGE INCREASE	1987 JAN	1988 JAN	1980 JAN	APR	1989 JUL	OCT	1990 JAN
Firms Increasing	5.4%	5.5%	5.9%	5.8%	5.6%	5.6%	5.5%
All Firms	1.0%	1.3%	1.4%	1.3%	1.0%	1.1%	1.4%

*Less than 0.5%

Chart 4

FREQUENCY OF AVERAGE COMPENSATION INCREASES



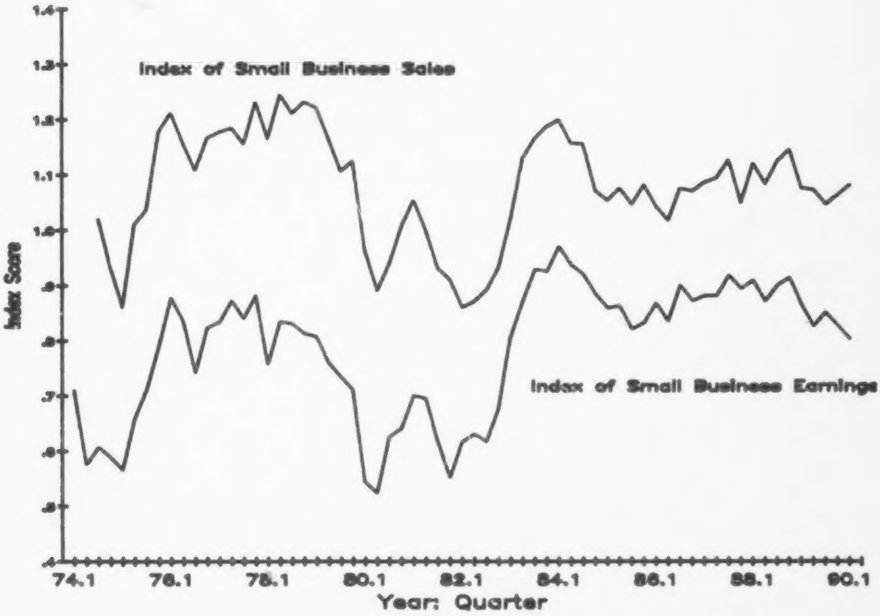
of the last three January reporting periods. Two reasons exist for the increase. One is the tight labor markets in parts of the country and the continuing demand for skilled labor (see, Employment). The other is the impact of the new Federal minimum wage law which goes into effect the first of April.

Sales

Small business sales continued to hold up quite well despite the slowing pace of activity. January's Index of Small Business Sales even rose for the second consecutive quarter offsetting losses registered earlier in the year (Chart 5). Thirty-two (32) percent reported higher sales in the fourth quarter than in the third compared to 28 percent who reported them lower (Table 11).

Chart 5

INDICES OF SMALL BUSINESS
SALES AND EARNINGS



Small business owners expected sales to be steady over the next three months. Forty-three (43) percent forecast higher sales for their business in the coming quarter and just 25 percent forecast them lower (Table 12). With and without seasonal adjustment, the change from October was marginal. Since sales have tracked sales expectations reasonably well over the last few years - though about 20 percentage points lower - the level of actual sales recorded in the first quarter will be similar to the level recorded in the fourth.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1987	1988	1989		1989		1990
SALES VOLUME	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Higher	4	2	4	3	3	2	3
Higher	27	25	29	26	36	31	29
About the Same	39	46	40	40	40	43	40
Lower	23	23	22	25	17	20	24
Much Lower	5	3	3	5	3	3	4
No Answer	2	1	2	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1987	1988	1989		1989		1990
REAL SALES	JAN	JAN	JAN	APR	JUL	OCT	JAN
Go Up A Lot	7	7	8	11	6	7	7
Go Up A Little	37	36	36	45	38	36	36
Stay the Same	28	33	29	22	32	27	28
Go Down a Little	18	16	18	14	16	21	20
Go Down a Lot	5	4	4	3	3	5	5
Don't Know	3	3	3	3	3	3	4
No Answer	2	1	2	2	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Earnings

The Index of Small Business Earnings tumbled sharply in January and came to rest at its lowest point in the expansion (Chart 5). The Index has now fallen in five of the last six quarters. Just 20 percent reported higher earnings in the fourth quarter than in the third; 37 percent reported them lower (Table 13).

Sales volume was the reason most often cited for lower earnings. The number pointing to lower sales (44 percent) was typical of the levels recorded over the last few years (Table 14). However, factor cost increases continued to be another important reason. Chart 6 illustrates the reasons for reduced earnings with seasonality eliminated and factor costs separated into their components. The important point on Chart 6 is that increased labor and increased material costs are about equally important. Reduced earnings attributable to financing costs occurs in only about 3 percent of the cases. These data agree with data presented earlier on wage increases (see, Compensation), interest rates (see, Credit Conditions), and more indirectly to general price levels (see, Prices).

Except for those citing seasonality, the distribution of reasons for higher earnings does not to change very much. The pattern held

Table 13

NET EARNINGS COMPARED TO PRIOR
QUARTER'S NET EARNINGS

NET	1987	1988	1989		1989		1990
EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Much Higher	1	1	2	1	1	1	1
Higher	21	21	21	18	25	22	19
Same	41	45	43	41	41	44	43
Lower	28	27	27	32	28	28	32
Much Lower	6	4	4	5	4	4	5
No Answer	3	2	3	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH	1987	1988	1989		1989		1990
NET EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Sales Volume	57	50	60	59	56	57	58
Higher Prices	9	6	9	11	8	11	9
Factor Costs*	7	4	6	7	4	7	5
Seasonality	17	19	18	12	27	18	20
Other; NA	10	21	8	11	5	7	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER	1987	1988	1989		1989		1990
NET EARNINGS	JAN	JAN	JAN	APR	JUL	OCT	JAN
Sales Volume	45	38	40	39	42	45	44
Factor Costs*	18	20	21	25	27	27	22
Seasonality	21	21	24	20	15	15	23
Other; NA	16	21	15	16	16	13	11
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

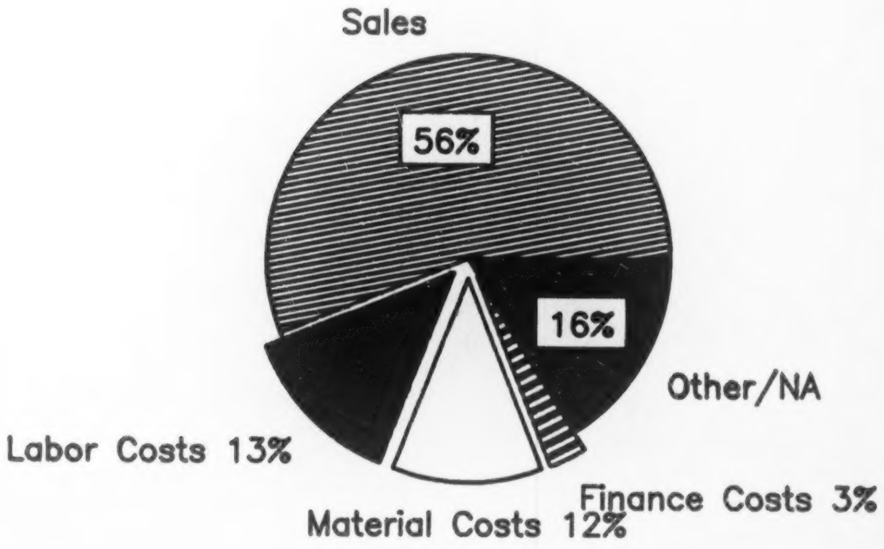
in January. Sales volume (58 percent) was the reason most often cited for higher earnings.

Employment

Operating small businesses provided in the weakest employment showing since January, 1983. Twelve (12) percent reported increasing net employment, 1/4 of it seasonal; 18 percent reported net employment losses, 1/2 of it seasonal (Table 15). The net number losing employees was magnified by the size of average increases and average reductions. The former (3.3 employees per firm adding) was with the exception of October the lowest since 1984 and the latter (4.6 employees per firm reducing) was with one exception the highest since 1982.

Chart 6

DISTRIBUTION OF NON-SEASONAL REASONS FOR LOWER EARNINGS



Despite fourth quarter's employment decline, the number of firms reporting a current job vacancy rose one percentage point on a seasonally adjusted basis. The raw number fell two percentage points from 23 percent in October to 21 percent in January (Table 16). Either number is historically high indicating that the small business demand for labor, particularly skilled labor, is far from satiated. (Also see, Single Most Important Problem.) As a result, the unemployment rate, inversely related to small business job openings, should remain stable.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT	1987	1988	1990		1989		1990
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increased	12	13	14	14	21	17	12
Seasonal	3	4	5	5	11	6	3
Non-seasonal	9	9	9	9	10	11	9
Decreased	15	17	13	13	11	5	18
Seasonal	7	6	6	4	2	5	9
Non-seasonal	8	11	7	9	9	10	9
No Change	68	70	70	72	68	68	70
No Answer	5	*	3	1	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	4.4	4.0	3.9	3.9	4.2	3.3	3.3
Employees decreased per firm decreasing	4.5	3.2	3.7	4.2	3.1	3.0	4.6
Average net change per all firms	-.16	-.01	+.05	-.43	+.53	+.12	-.39

*Less than 0.5%

Employment plans for the first quarter looked more like current job openings and less like fourth quarter employment patterns. Nineteen (19) percent planned net additions to the labor force in the first quarter compared to eight percent planning net declines (Table 17). January's seasonally adjusted number was marginally lower than October's. However, both were among the highest in the expansion.

October's forecast is puzzling. The forecast was highly favorable and it missed badly. The immediate question is whether October's effort was simply a poor forecast or whether planned hiring was delayed and January plans reflect unrealized activity. The answer has implications for January's forecast. The only datum which offers direct evidence on the question is current job openings. It suggests that jobs remain plentiful which in turn suggests January plans are more likely to be realized than not. But, the same rationale would have applied the prior quarter and it would have been wrong.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Yes	15	23	24	23	24	23	21
Skilled Labor	11	14	15	15	17	15	15
Unskilled Labor	3	2	5	4	3	3	3
Both	2	7	4	4	4	5	3
No	83	75	75	76	75	77	79
No Answer	2	2	1	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Increase	16	19	20	23	15	16	19
Keep the Same	73	74	69	69	74	73	72
Decrease	7	5	7	5	10	10	8
No Answer	4	2	4	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

January small business inventory data presented a confusing, even contradictory, array of information on performance, satisfaction and plans. The data lacked consistency, demonstrating that small business owners held no consensus over the economy's direction nor the prospects for their individual firms. However, past discrepancies in the inventory data have usually been resolved within one quarter.

Twenty-one (21) percent reported net inventory declines over the last quarter compared to 16 percent reporting net inventory additions (Table 18). January's figures appeared somewhat more favorable than those recorded in either January, 1988 or 1989. More owners in all major inventory holding industries reported declines more often than increases with construction, retail and manufacturing reporting net declines most frequently. Retail in particular was able to reduce net inventories better last quarter than in any of the three most recent fourth quarters.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY	1987	1988	1989		1989		1990
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Increase	17	16	17	20	20	18	16
Same	37	44	42	43	44	46	43
Decrease	23	18	19	17	15	16	21
Not Applicable	20	21	19	19	20	19	20
No Answer	3	1	3	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

Despite the relative reduction in net inventories over the last quarter, small business owners were less satisfied with current inventory balances in January than they were at any time in the last two years. Nine percent believed their inventories "Too Low" while 13 percent termed them "Too Large" (Table 19). The resulting net -4 percentage points was the poorest performance with a single exception in over three years.

Dissatisfaction with current inventories as in January suggest that small business owners would curb plans to add inventories in the coming quarter. That did not occur. Rather, plans to increase net inventories rose. Twenty-two (22) percent reported plans to increase net inventory compared to 13 percent who planned to reduce them (Table 20). Seasonal adjustment shrunk plans from +9 to +6 percentage points. Nevertheless, January's number represented the second consecutive quarterly increase and rested on a par with those recorded throughout 1988.

Capital Expenditures

Capital expenditures proved a major positive factor in this quarter's report as it has in reports over the last two years. Both reported capital expenditures and plans to make them were strong in January. However, realizing capital expenditure plans will be increasing difficult as lower earnings, flat sales and no relief on interest rates conspire to reduce the resources available to finance them.

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY	1987	1988	1989		1989		1990
LEVEL	JAN	JAN	JAN	APR	JUL	OCT	JAN
Too Large	12	17	12	11	12	12	13
About Right	54	47	55	56	55	54	55
Too Low	10	12	10	10	10	10	9
Not Applicable	21	23	21	21	19	21	21
No Answer	3	1	2	2	4	3	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY	1987	1988	1989		1989		1990
CHANGE	JAN	JAN	JAN	APR	JUL	OCT	JAN
Add	22	23	22	21	16	16	22
No Change	41	42	43	44	46	44	43
Decrease	13	11	12	12	15	17	13
Not Applicable	21	22	20	20	15	17	17
No Answer	3	2	3	3	8	6	5
Total	100%	100%	100%	100%	100%	100%	100%

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21), up one percentage point from October and equal to the expansion high. The largest proportion was made for new equipment and vehicles (48 percent) and a non-mutually exclusive 17 percent were made for building improvements. Fifty-nine (59) percent of all capital expenditures were $10,000 or more compared to 57 percent recorded in October (Table 22). In fact, 43 percent of all small business owner respondents reported capital expenditures of $5,000 or more, a figure equal to the expansion high.

The number of small business owners planning one or more capital outlays in the next three to six months moved sharply higher in January. Thirty-five (35) percent held plans, a jump of four percentage points from the previous quarter (Table 23). Seasonally adjusted, January plans were among the strongest in the series history (Chart 7) and extended the pattern which has existed throughout most of the decade.

The important question is how small business owners intend to finance their capital expansion plans. Healthy earnings served as

Table 21

PERCENT MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987 JAN	1988 JAN	1990 JAN	APR	1989 JUL	OCT	1990 JAN
All Types+	54%	55%	57%	57%	54%	56%	57%
Equipment/ Vehicles	43	45	49	46	45	46	48
Add Buildings	7	8	7	8	7	6	5
Improved Buildings	15	15	14	16	15	16	17
Land	4	6	4	4	4	4	4

+Percent of firms making one or more capital expenditures

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS BY SIZE OF TOTAL EXPENDITURES

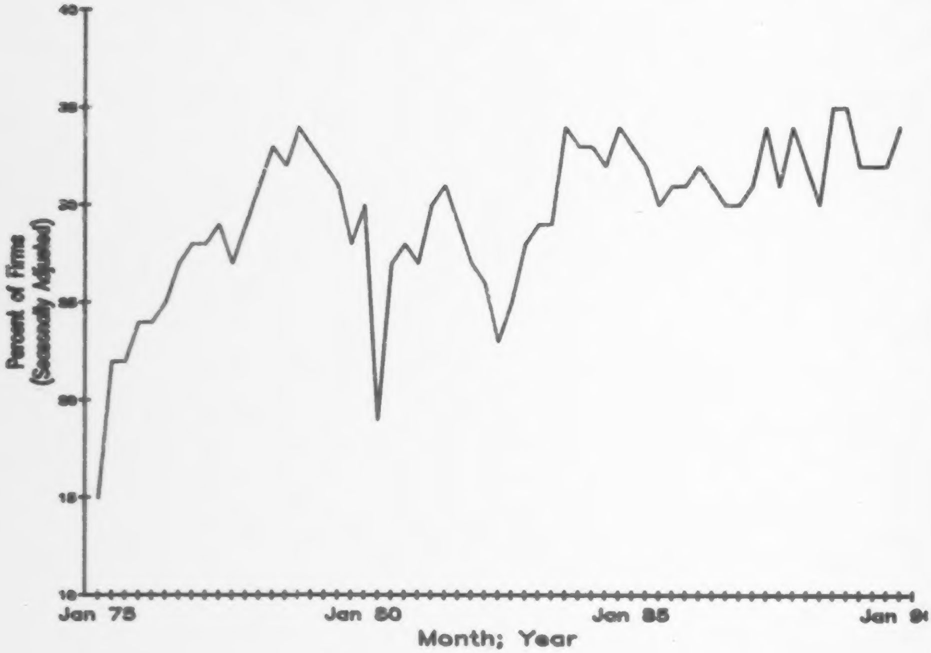
AMOUNT OF EXPENDITURES (000's)	1987 JAN	1988 JAN	1989 JAN	APR	1989 JUL	OCT	1990 JAN
Under $1	8	6	6	6	4	7	5
$1 - 4	24	19	22	19	18	20	21
$5 - 9	14	11	13	16	13	16	15
$10 - 19	19	21	22	17	24	21	19
$20 - 49	15	19	18	18	20	16	18
$50 - 99	10	10	9	10	9	8	10
$100 - 499	9	9	8	11	11	10	10
$500 - 999	1	1	1	2	*	2	1
$1,000 or More	1	4	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

the pillar of those made in the mid to late 1980's. But earnings as measured by the Index of Small Business Earnings (see, Earnings) began to decline in 1988 and last quarter fell to their lowest point in the expansion. While sales have shown more resillience than earnings, they have been steady with no change expected (see, Sales). Increased sales volume, therefore, is not a promising source of new capital. The third possibility is interest rates. However, they remain relatively high with little chance of falling in the immediate future (see, Credit Conditions).

Chart 7

FREQUENCY OF PLANNED CAPITAL EXPENDITURES



Single Most Important Problem

"Taxes" was most frequently cited as the single most important problem of small business (Table 24). Twenty-two (22) percent noted "Taxes," the same percentage as in October. Not since October, 1984, has any other problem been cited with greater frequency.

Eighteen (18) percent cited "Government Regulation(s)/Red Tape" as their single most important problem, a one percentage point climb from the prior quarter. The number tied a survey record high for the problem established in January, 1988. No particular legislation or incident appears responsible for the recent relative importance of regulation and red tape. Since 1985 the number citing the problem has been relatively high. The trend has been even more pronounced in the last two years. One explanation for the rise is that as immediate, pressing problems, e.g., interest rates, poor sales, decline in relative importance, nagging problems, e.g., regulation/red tape, increase.

Much of the same rationale applies to the progressive increase in the number of small business owners citing the "Quality of Labor"

Table 23

EXPECTED CAPITAL EXPENDITURES IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1987	1988	1989	1989			1990
	JAN	JAN	JAN	APR	JUL	OCT	JAN
Yes	31	35	36	33	31	31	35
No	53	50	48	52	55	54	50
Don't Know	11	11	13	11	11	12	12
No Answer	5	4	3	4	3	3	3
Total	100%	100%	100%	100%	100%	100%	100%

as their single most important problem. Ten (10) percent pointed to the problem in January, one percentage point lower than in October. However, labor quality as a problem too has been cited with increasing frequency over the last eight years. The difference between regulation and labor quality as problems is that the evidence indicates that labor quality concerns are much more than a reaction to declines in concern about immediate problems. They clearly reflect the increasing difficulty small employers find recruiting qualified help.

Neither the number of small business owners pointing to "Poor Sales" nor to "Inflation" suggest a major change in economic direction is in progress. Just 11 percent cited "Poor Sales" as their single most important problem, the same percentage as in October and within one percentage point of the number citing poor sales over the last two years. For almost three years prior to October, 1987, the proportion mentioning poor sales was even higher.

The percent citing "Inflation," has been steady over the last four quarters and with the exception of 1986 and 1987 when the figure was lower, has remained much the same since 1984. Thus, neither appears to be having a major impact on small business owners - at least not yet.

Index of Small Business Optimism

The seasonally adjusted Index of Small Business Optimism fell 1.4 percent between October and January. January's Index stood at 100.7 (100=1978) (Table 25), similar to to the levels registered since last April. The quarter's decline does not suggest a trend. In fact, since mid-1985 the Index has bobbed up and down within a relatively narrow range (Chart 8). The highest Index score during the period has been 102.9 and the lowest 99.5. The comparable series scores have been 108.7 and 81.1 respectively. Thus, January's Index indicates that no major changes in national economic activity should be expected in the coming three months.

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	Prior High %	Prior Low Date	Prior Low %	1989 APR Rank	1989 APR %	1989 JUL Rank	1989 JUL %	1989 OCT Rank	1989 OCT %	1990 JAN Rank	1990 JAN %
Taxes	7/88+	25	10/74	8	1	22	1	21	1	22	1	22
Inflation	10/74	41	10/87+	2	8	4	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	1	4	10	3	10	3	11	3	11
Interest Rates & Financing	4/82+	37	7/77	4	3	11	3	10	6	7	6	7
Cost of Labor	7/77	9	7/82	2	7	7	7	7	7	6	6	7
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	16	2	17	2	17	2	18
Competition from Large Business	10/76	13	4/80+	4	5	9	3	10	3	11	4	10
Quality of Labor	10/88+	12	1/83+	3	5	9	3	10	3	11	4	10
Shortage of Fuel Material, Goods	1/74	23	10/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	11	-	11	-	11
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
+ Most recent

Table 25

INDEX OF SMALL BUSINESS OPTIMISM BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 JAN	1987 JAN	1988 JAN	1989 APR	1989 JUL	1989 OCT	1990 JAN
General Expectations[1]	112.0	108.5	110.5	110.3	107.8	108.3	109.3
Current Status[2]	101.3	120.3	104.3	101.3	106.0	104.4	100.0
Spending Plans[3]	116.3	110.4	119.7	120.0	112.3	112.0	118.3
Index*	101.1	110.4	111.4	110.5	108.6	108.1	100.7
Index (1978=100)+	101.6	101.8	102.8	99.5	99.8	102.1	100.7

*Index numbers
\+Seasonally Adjusted

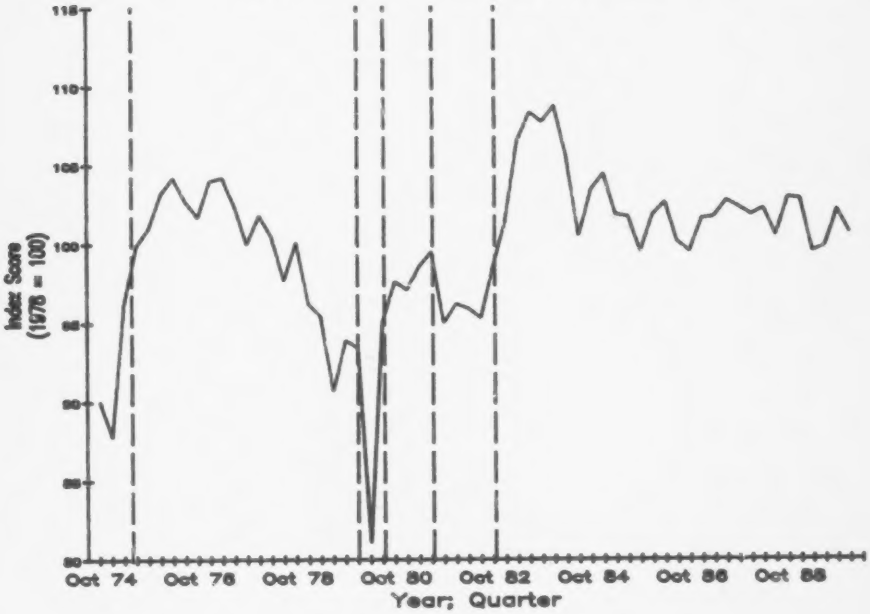
[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions

[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings

[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 8

INDEX OF SMALL BUSINESS OPTIMISM

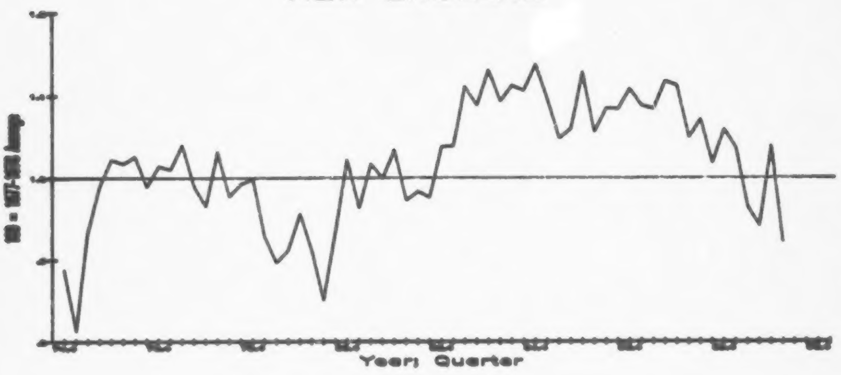


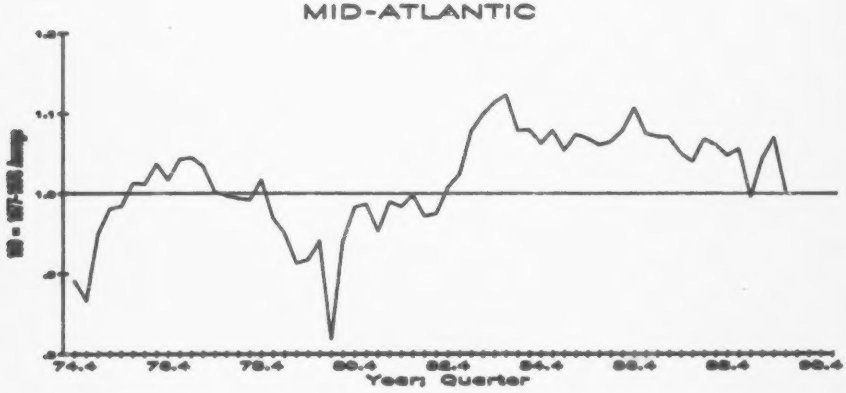
Regional Conditions

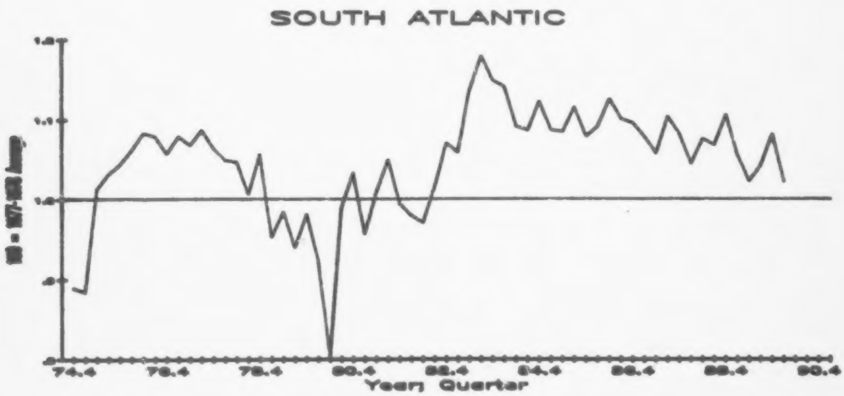
All regional Indices of Small Business Optimism were lower in January, 1990, than they were one year ago. The exceptions were in the West South Central region which was 3 percent higher in its continued come-back than last year and the Mountain states which edged higher. The Index of the West North Central states - the Plains - was virtually unchanged, though at a comparatively low level.

The Pacific region continued to produce the nation's highest Index. In January, the region led the country for the seventh consecutive quarter. It was followed by the West South Central, Mountain, South Atlantic and the Great Lakes regions.

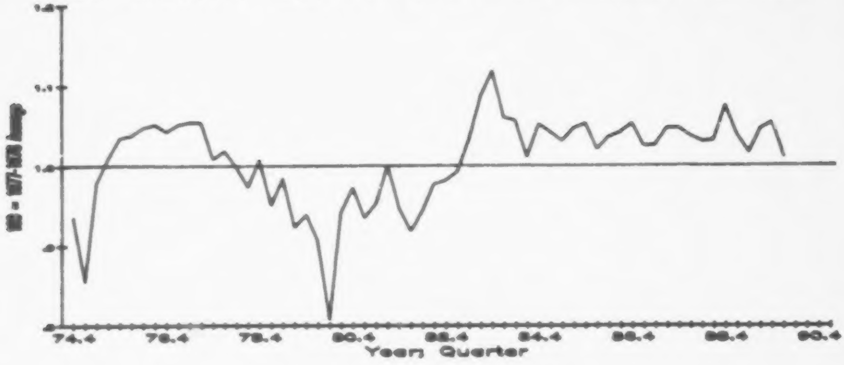
Less than two years ago, New England produced the nation's most favorable Index. In January, the region produced the lowest. The region's year over year tumble was 11 percent. The second largest fall occurred in the Mid-Atlantic region (5 percent) which has been among the most prosperous. Weather probably was a factor in these two northern regions. However, the trend, particularly in New England, has been down and weather may only have accentuated it.


NEW ENGLAND

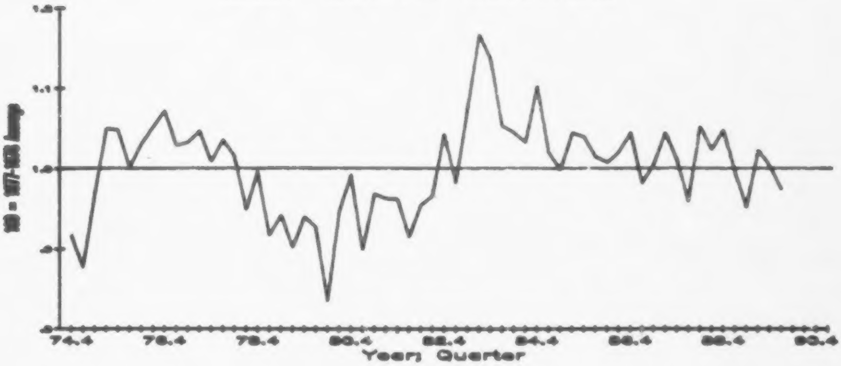

MID-ATLANTIC


SOUTH ATLANTIC

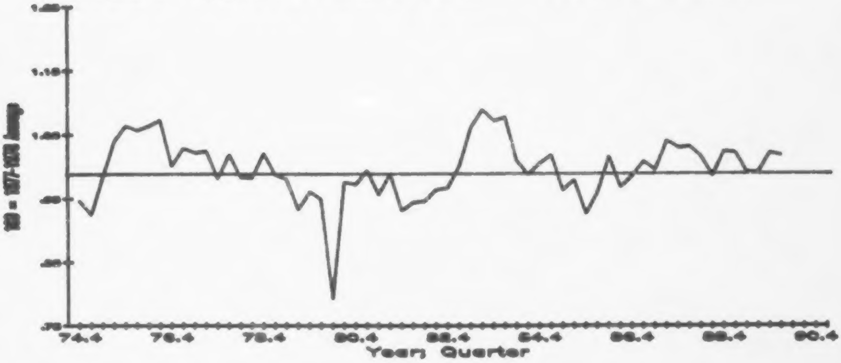
EAST NORTH CENTRAL - THE GREAT LAKES



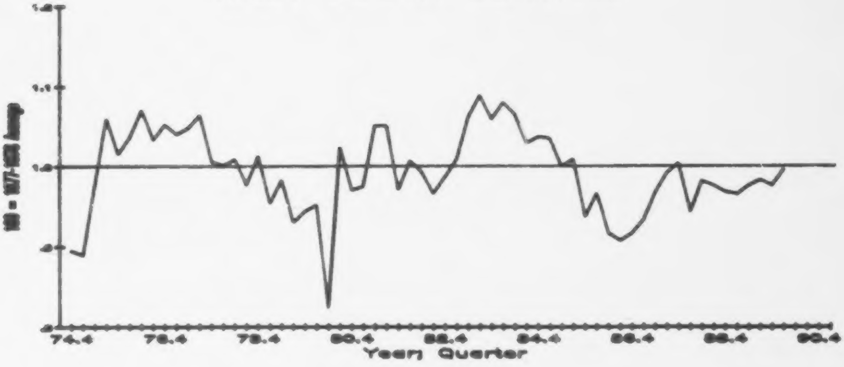
EAST SOUTH CENTRAL



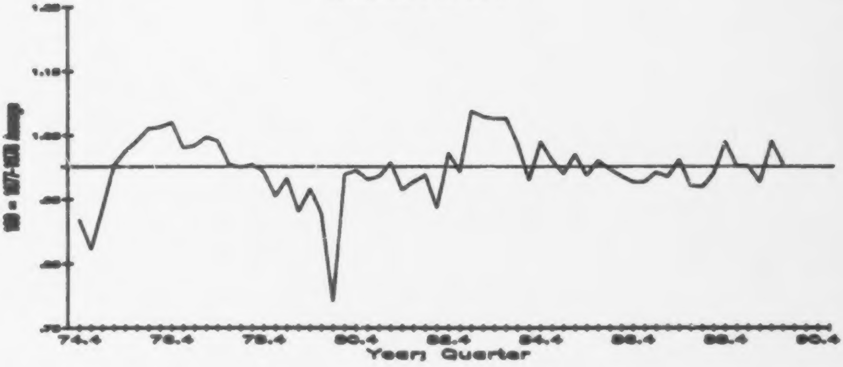
WEST NORTH CENTRAL - THE PLAINS



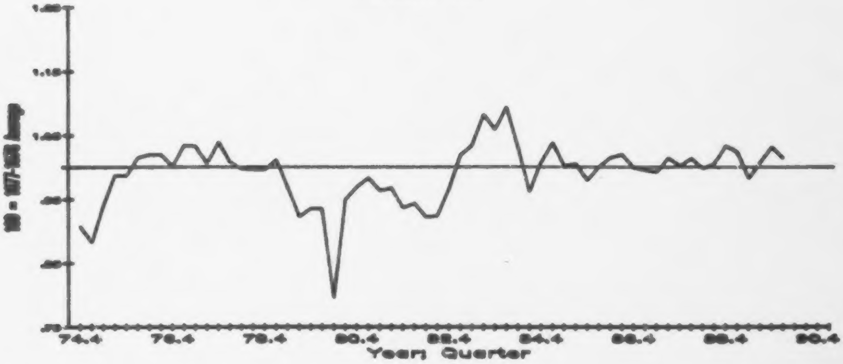
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1990
Less than $50,000	4	5	6	*	6	8	10	18	9	7
$50,000-99,999	11	5	8	4	8	7	3	14	13	9
$100,000-199,000	13	9	11	6	15	20	15	21	25	15
$200,000-349,000	17	12	15	10	18	19	10	15	19	16
$350,000-799,999	19	21	20	14	25	21	23	16	21	21
$800,000-1,499,999	15	16	19	14	12	12	13	6	6	12
$1,500,000-2,999,999	12	18	9	14	7	8	10	4	4	9
$3,000,000 or more	9	14	9	38	8	4	12	2	1	10
Not Ascertained	*	*	3	*	1	1	4	4	2	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	316	244	65	135	590	112	169	280	140	2057
Percent of Firms	15	12	3	7	29	5	8	14	7	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1990
1	7	2	6	4	7	12	11	11	6	
2	9	5	2	4	10	13	17	17	12	
3 - 5	28	16	25	22	29	39	30	30	32	
6 - 9	20	19	12	19	21	13	16	17	21	
10 - 14	12	17	14	12	12	10	10	10	10	
15 - 19	7	7	15	10	7	5	2	5	4	
20 - 39	9	19	17	10	9	2	10	5	10	
40 or more	8	15	8	19	5	6	3	4	4	
No Answer	*	*	1	*	*	*	1	1	1	
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

[1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

[1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
[2] Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
[3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
[4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
[5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
[6] Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
[7] Financial, insurance, real estate, bank, savings & loan, ***etc.***
[8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
[9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
[10] Other (please describe)______________________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

[1] Taxes
[2] Inflation
[3] Poor sales
[4] Interest rates & financing
[5] Cost of labor
[6] Government regulation(s) & red tape
[7] Competition from large businesses
[8] Quality of labor
[9] Shortage of fuels, materials or goods 3
[0] Other____________________ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

[1] Yes [2] No [3] Uncertain 4

4a. Why? (Circle **ONE** answer – ***most important reason***)

[1] Economic conditions
[2] Sales prospects
[3] Financing & interest rates
[4] Cost of expansion
[5] Other____________________ (please explain) 5

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

[1] Much better
[2] Somewhat better
[3] About the same
[4] Somewhat worse
[5] Much worse 6
[6] Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

[1] Under $12,500
[2] $12,500–24,999
[3] $25,000–49,999
[4] $50,000–87,499
[5] $87,500–199,999
[6] $200,000–374,999
[7] $375,000–749,999 7
[8] $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

6b. If higher or lower, by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50% 9
[8] 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

7a. If higher or lower, by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50% 11
[8] 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

1 Sales volume 12
2 Labor costs
3 Cost of materials
4 Availability of materials
5 Received higher prices for your product or service
6 Financing costs
7 Usual seasonal change
8 Other ______________________ (Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

1 Go up a lot 13
2 Go up a little
3 Stay the same
4 Go down a little
5 Go down a lot
6 Don't know

9. How are your average selling prices now compared to three months ago?

1 Lower now 14
2 No difference
3 Higher now
4 Don't know

9a. If ***higher or lower***, by what percent, on an average?

1 Less than 1% 15
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

1 Yes, raise prices 16
2 Yes, lower prices
3 No change
4 Don't know

10a. If raise or lower, by what percent, ***on average***?

1 Less than 1% 17
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

11. How many employees do you have full and part-time ***including yourself***?

1 One 18
2 Two
3 3–5
4 6–9
5 10–14
6 15–19
7 20–39
8 40 or more

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

1 Increased by ____ employee(s) 19-21
2 Decreased by ____ employee(s)
3 Stayed the same

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

1 Yes 22
2 No

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

1 Increase 23
2 Keep the same
3 Decrease

14. Do you have any job openings that you are ***not*** able to fill right now?

1 Yes, for skilled labor 24
2 Yes, for unskilled labor
3 Yes, both skilled and unskilled labor
4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

1 Less than one month 25
2 One month, but less than three months
3 Three months, but less than six months
4 Six months or more

15. During the last three months, did you increase or decrease your inventories?

1 Increase 26
2 About the same
3 Decrease
4 Not appropriate

15a. If increase or decrease, by approximately what percent?

1 Less than 6% 27
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

1 Too large 28
2 About right
3 Too low
4 Not appropriate

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

1 Add 29
2 Keep the same
3 Decrease
4 Not appropriate

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***? 30

- ☐1 Much higher
- ☐2 Higher
- ☐3 Same
- ☐4 Lower
- ☐5 Much lower
- ☐6 Don't know
- ☐7 Inapplicable, do not borrow regularly

17a. Are these loans easier or harder to get than they were ***three months ago***? 31

- ☐1 Easier
- ☐2 Same
- ☐3 Harder
- ☐4 Don't know

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***? 32

- ☐1 Easier
- ☐2 Same
- ☐3 Harder
- ☐4 Don't know

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: ☐1 Yes 36
Additional Buildings: ☐1 Yes 37
Improved Buildings: ☐1 Yes 38
Additional Land: ☐1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)? 40

- ☐1 under $1,000
- ☐2 $1,000-4,999
- ☐3 $5,000-9,999
- ☐4 $10,000-19,999
- ☐5 $20,000-49,999
- ☐6 $50,000-99,999
- ☐7 $100,000-499,999
- ☐8 $500,000-999,999
- ☐9 $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment? 41

- ☐1 Yes
- ☐2 No
- ☐3 Don't know

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***? 42

- ☐1 Increase
- ☐2 Keep the same
- ☐3 Decrease
- ☐4 Don't know

21a. If Increase or Decrease, by what percentage on average? 43

- ☐1 1-2%
- ☐2 3-4%
- ☐3 5-6%
- ☐4 7-8%
- ☐5 9-10%
- ☐6 Over 10%
- ☐7 Don't know

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)? 44

- ☐1 Increased
- ☐2 Kept the same
- ☐3 Decreased

22a. If Increased or Decreased, by what percentage on average? 45

- ☐1 1-2%
- ☐2 3-4%
- ☐3 5-6%
- ☐4 7-8%
- ☐5 9-10%
- ☐6 Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located: 46

- ☐1 A metropolitan/urban area (population of over 100,000 in city and immediate area)
- ☐2 A small city (population over 15,000 but under 100,000 in city and immediate area)
- ☐3 A rural area (population under 15,000 in city and surrounding communities)

A7815-1

The NFIB Foundation

Quarterly Economic Report for Small Business

Spring 1990

GEORGE STEIN
ATTORNEY AT LAW
RICHARD SMITH
D.D.S.
BROWN & SON
CONSTRUCTION
AND PAINTING
CAROL'S
DRESSES
ACME
TRANSIT

Quarterly Economic Report for Small Business

Spring 1990

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NFIB QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

(REPORT NO. 67)

The 67th in series of quarterly economic reports based on survey data obtained during April 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

April's small business economic survey provided generally good news on the condition of the nation's smaller firms. No spectacularly positive developments occurred in the last three months and none were projected for the next three months. But, the same was true of negative developments. None were reported and none were expected. The steady pace of activity was summarized by the Index of Small Optimism which showed no movement between January and April (seasonally adjusted).

The month's best news was what did not happen. Press reports of a small business "credit crunch" appeared to represent isolated cases and fears of what may happen rather than what is occurring. Small business credit conditions scarcely changed (a marginal deterioration) between January and April and owners expected little change in the next three months. Prices provided additional good news. While the frequency of average price increases remained near expansion highs, plans to increase them in the next three months plunged. The same pattern developed with average employee compensation - the most frequent increases of the expansion occurred in the first quarter and were accompanied by a sharp drop in plans for the second. Earnings rebounded after trending down for six quarters, bringing yet another positive element to April's report.

Most indicators of small business economic activity were stable. Reported sales were slightly higher, but sales expectations showed no direction. Small business employment activity weakened over the winter months on a seasonally adjusted basis. April's employment numbers were little changed from January (seasonally adjusted), but the modest changes were in a downward direction. Capital expenditures ebbed from a high base while plans to make capital expenditures fell. Small business owners were satisfied with their inventory balances, but didn't plan to alter them very much. The changes planned involved net increases. The outlook improved substantially from last April though it was weaker than in January. The absolute measure of the outlook was responsible for the decline as the relative measure did not change. Perhaps the fairest summary of April's report is: overall, the small business economic condition is not bad.

Outlook

The small business outlook ebbed again on a seasonally adjusted basis. The relative measure of the outlook held steady from January. But the absolute measure fell for the second consecutive quarter. Though both measures have gradually declined since 1984, the small business outlook stubbornly resists any thoughts of a recession.

Twenty-two (22) percent expected general business conditions to get better in the next three to six months (Table 1); fourteen percent expected them to get worse. Seasonally adjusted, the number was identical to January's figure. That made April's assessment more optimistic than or equal to the assessment made in eight of the last 12 quarters.

For two consecutive quarters in early 1989, more small business owners expected conditions to get worse than expected them to get better. That had not happened since 1980 and indicated confidence was slipping. But the measure rebounded later in 1989 as apparently did confidence, and has been in the positive column for the last three quarters.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED	1987	1988	1989	1989		1990	
CONDITIONS	APR	APR	APR	JUL	OCT	JAN	APR
Much Better	2	1	1	1	1	2	2
Better	21	21	17	14	19	22	20
Same	55	58	54	58	60	57	57
Worse	12	12	19	19	12	13	13
Much Worse	2	1	2	2	1	1	1
Don't Know	6	7	7	6	6	5	6
No Answer	2	*	*	*	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Aside the relatively favorable report on the outlook for general business conditions came the relatively unfavorable report on the climate for small business expansion. The datum was the most negative of the entire report. Just 17 percent believed it a good time for small business to expand its activities (Table 2). Seasonally adjusted, April's report was the second poorest of the expansion. The only one worse occurred in April, 1989.

The distribution of reasons given for believing it to be a poor time for small business expansion was similar to January's distribution. Over three of five pointed to general economic conditions as the primary reason followed by expansion costs, and sales prospects with just eight percent citing financing costs (Chart 1). The distribution of reasons given by those who were uncertain about the climate also resembled January's distribution. The change from January occurred among those believing it a good time for small business expansion. The proportion attributing their favorable view to financing conditions plummeted - from 16 percent in January to three percent in April. The change in the number citing financing conditions appeared tied to interest rates rather than to credit availability (see, Credit Conditions).

Table 2

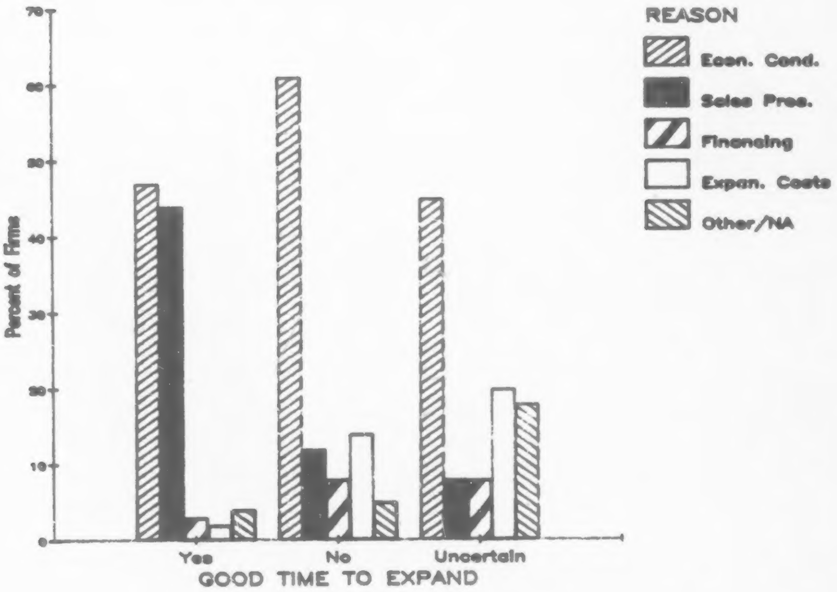
CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	20	21	16	17	15	15	17
No	43	41	48	45	46	50	46
Uncertain	35	37	35	37	38	34	36
No Answer	2	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Chart 1

"GOOD TIME TO EXPAND" by REASON FOR VIEW OF EXPANSION



Credit Conditions

Reports of a small business "credit crunch" appear greatly exaggerated. Neither reflective nor prospective assessments of credit conditions by small business owners suggested a national problem. However, their assessments did indicate that parts of the country - most notably New England - are experiencing rapidly changing credit conditions which are having an adverse impact (see, Regional Conditions). One important factor influencing these assessments is the comparatively modest small business demand for loans. Modest demand eases any "credit crunch" that might appear under more robust economic conditions. Thus, the impact of more intensive regulatory oversight and increased reserve requirements on the ability of small business owners to fill their credit needs cannot be dismissed. Stringent supervision of bank lending activity, particularly if lenders do not understand the new rules, could eventually result in a general credit shortage. But a national small business "credit crunch" clearly does not now exist.

A net eight percent reported loans "Harder" to get in the last three months than they had been in the three months before (Table 3). April's number is two percentage points higher than January's, but two percentage points lower than one year ago. Chart 2 presents change in the ability of small business owners to fill their credit needs. It illustrates that credit has been somewhat more difficult to obtain as the expansion ages. It also illustrates that credit has become much more difficult to obtain in New England. Small business owners from that region now find it more difficult to obtain credit than do small business owners nationally. The trend in the West South Central region, at least until this quarter, has been the opposite. Business loans have been much harder to get in that region than elsewhere in the country. But they have recently moved closer to the national average.

Table 3

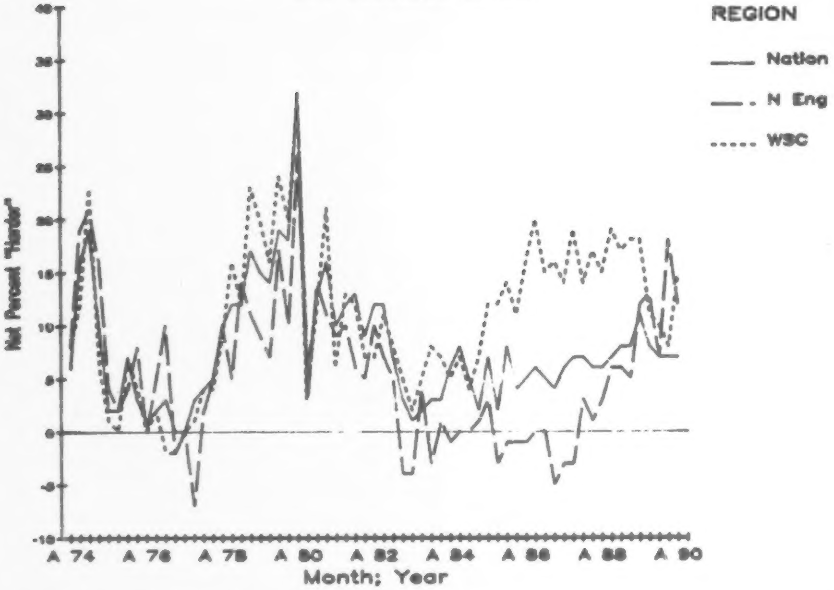
AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN	1987	1988	1989	1989		1990	
AVAILABILITY	APR	APR	APR	JUL	OCT	JAN	APR
Easier	2	2	1	1	1	1	1
Same	27	25	27	25	26	25	24
Harder	7	7	11	8	7	7	9
Don't Know	2	2	2	1	2	3	1
Inapplicable (Don't Borrow; No Answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

No broad industry group appears more adversely affected than any other. Concern focuses on the construction industry, though small

Chart 2

NET PERCENT REPORTING IT "HARDER"
GET BUSINESS LOANS



business owners provided no evidence suggesting small contractors are having substantially greater problems than are those in other industries.

In April, just 35 percent classified themselves as "regular borrowers" (Table 4). The number equalled a survey record low established last July. Regular borrowing has declined gradually since 1979. The decline was made possible by a combination of lower inflation and better earnings - particularly after 1983. Its effect has been to reduce small business demand for debt capital relative to what it would have been. Thus, reduction in the number of "regular borrowers" influences the comparative availability of loans.

Other factors also influence the total small business demand for debt capital. Capital expenditures and earnings are the two most obvious. Both have been healthy over the last five to six years. Earnings financed a good portion of the capital expenditures made during this time. But with earnings as measured by the Index of Small Business Earnings declining in 1989, it appeared small business owners would need to visit the bank more frequently - even if they were not regular borrowers. The abrupt reversal in the Earnings Index in the first quarter of 1990 (see, Earnings) suggests that many small business owners still have the cash to finance large numbers of capital expenditures internally.

Small business borrowers saw the rates paid on their short-term (12 months or less) loans decline by 2/10s of one percent between the fourth quarter, 1989, and the first quarter, 1990, to 12.0 percent (Table 4). However, rates were firming by quarter's end and longer term loans in particular may again be rising. Nine percent reported interest rates on all loans higher in the first quarter than in the fourth compared to four percent who reported them lower (Table 5).

Small business borrowers believed that financing conditions would deteriorate somewhat over the next three months. However, they did not forecast any imminent "credit crunch." A net eight percentage points more borrowers expected financing conditions to be

Table 4

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST	1987	1988	1989	1989		1990	
RATE	APR	APR	APR	JUL	OCT	JAN	APR
Under 10%	11	10	4	1	1	1	1
10%-12%	31	33	29	24	31	32	38
13%-15%	8	6	13	17	12	14	12
16% or More	3	2	3	2	5	3	3
Prime +1	25	25	25	29	31	29	25
Prime +2	17	21	21	23	18	17	18
Prime +3 or More	5	3	5	4	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.6%	10.8%	12.6%	12.0%	12.6%	12.2%	12.0%

*Less than 0.5%

Table 5

CURRENT INTEREST RATE COMPARED TO
INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST	1987	1988	1989	1989		1990	
RATES	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	*	1	7	1	1	*	1
Higher	5	6	29	14	9	7	8
Same	22	23	4	12	18	21	21
Lower	9	5	*	7	7	7	4
Much Lower	*	*	*	*	*	*	*
Don't Know	2	1	1	1	1	1	1
Inapplicable (borrow infrefrequently;no answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

less favorable in the next three months than they were in the previous three (Table 6). However, April's assessment was little changed from January's. One percent more felt conditions would be "harder" and one percent fewer felt they would be "easier." Expected financing conditions in April, 1990, was four percentage points more positive than it was in April, 1989.

The national total concealed an important regional variation. In January, 23 percent of borrowers in New England expected financing conditions to deteriorate over the next three months. By April the figure stood at 12 percent. The change implies that financing conditions in New England may be near bottom. That does not mean conditions will soon improve substantially. Nor does it directly account for any additional regulatory problems. But it does mean that New England small business owners, at least for now, feel that the only way is up.

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Easier	2	2	1	1	1	2	1
Same	25	22	23	23	24	22	22
Harder	8	8	13	8	7	8	9
Don't Know	3	2	4	3	4	4	3
Inapplicable (Don't Borrow; No Answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

Prices

Small business prices took a serious turn for the worse in January. The number of small business owners raising prices neared an expansion high creating fears of a renewed bout with inflation. The price numbers marginally improved in February and March. But by April, the percent reporting price increases in the last three months had nearly returned to their January level. Three pieces of April data, including expectations to raise prices in the next quarter, indicated that the frequency of selling price increases will soon decline. As a result, a substantially lower inflation rate than the first quarter's should be expected in the second.

Thirty (30) percent reported increasing average prices in first quarter compared to the fourth (Table 7). The number was just one percentage point lower than January's, but one percentage point above March's. In fact, only two quarters experienced more unfavorable price performance in the last nine years. The data are indicative of uniformly poor price performance the American economy experienced in the first quarter of the year.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE	1987	1988	1989	1989		1990	
SELLING PRICES	APR	APR	APR	JUL	OCT	JAN	APR
Lower Now	12	10	9	9	9	9	9
No Difference	57	57	52	59	61	59	59
Higher Now	24	30	36	29	28	31	30
Less than 1%	1	*	*	1	1	*	1
1.0-1.9%	3	4	4	3	4	4	4
2.0-2.9%	5	5	5	5	5	5	5
3.0-3.9%	3	4	5	4	3	4	4
4.0-4.9%	2	3	5	4	4	5	4
5.0-7.9%	5	8	9	6	6	6	6
8.0-9.9%	1	2	2	1	1	2	1
10% or More	3	3	4	4	3	4	3
No Answer	1	1	2	1	1	1	2
No Answer	7	3	3	3	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The most recent price surge appears over. The country should, if it hasn't already, return to an inflation rate similar to that experienced just before late winter. Three reasons exist to warrant such optimism. The first is that those most likely to raise average selling prices in the last quarter were at the end of the production-distribution chain. Retailers (38 percent), wholesalers (36 percent) and the financial services (34 percent) were the industrial groups most apt to raise prices. The frequency of price increases in all other industries lay between 24 and 27 percent. Thus, most of the price increases beyond those embedded in the underlying rate were almost through the system by April. The rest should be through in the next quarter.

Small business price plans were also encouraging. Just 25 percent reported plans to raise average selling prices in the next three months (Table 8). April's plans represented a huge seven percentage point decline from January and a four percentage point decline from March. Since price plans are a good indicator of subsequent performance (Chart 3), a decline in the frequency of price increases should occur in the coming months. April's price plans were identical to those posted last October and continued the obvious improvement occurring since January. But despite the improvement, plans still were above the levels recorded last summer and throughout all of 1986 and 1987. Thus while the first quarter "spike" may have passed, no progress has been made on the underlying rate.

The third reason the frequency of small business price increases should fall in the second quarter is average employee compensation. Of the three reasons, however, it is the most uncertain.

Table 8

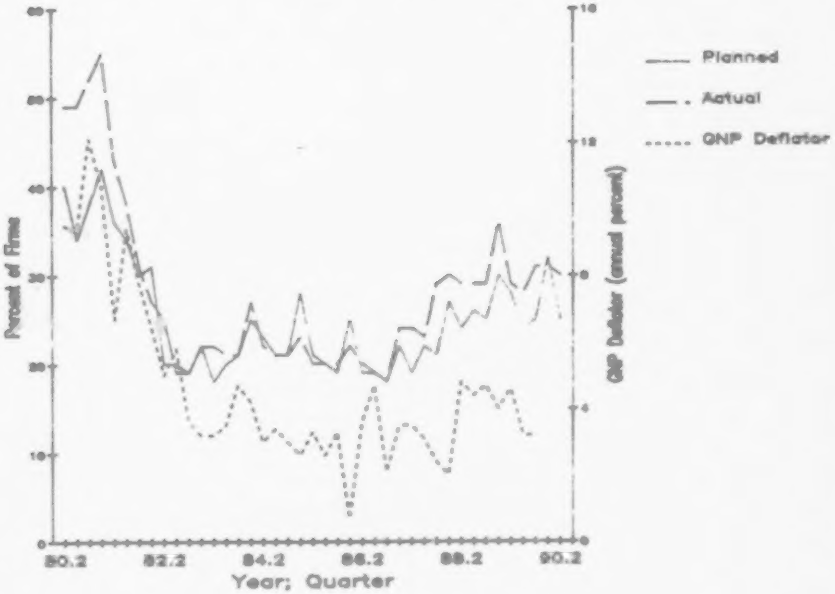
PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Lower	3	3	3	3	3	3	3
No Change	54	54	51	59	56	50	56
Increase	19	24	28	24	25	32	25
Less than 1%	1	*	*	*	1	1	1
1.0-1.9%	2	2	3	3	2	4	3
2.0-2.9%	3	3	5	4	4	5	5
3.0-3.9%	3	4	4	3	3	4	3
4.0-4.9%	5	3	4	3	4	5	3
5.0-7.9%	1	7	7	6	6	7	6
8.0-9.9%	2	1	1	1	1	1	1
10% or More	1	3	3	3	3	3	2
Don't Know	1	1	1	1	1	2	2
Don't Know	15	13	14	12	14	13	14
No Answer	9	6	4	2	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Chart 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Compensation

Growing percentages of small business owners over the last four years have reported raising average employee compensation. Under 21 percent (quarterly average) raised average compensation in 1986. A year later, the number neared 23 percent. By 1988, it was 24.5 percent and it rose again in 1989 to 25.5 percent. And, the growth hasn't stopped. The first quarter of the new decade produced the highest quarterly figure in six years. Twenty-seven (27) percent reported raising average employee compensation in the first quarter, three percentage points higher than in the fourth quarter (Table 9).

Overall increases in employee compensation have been small, but persistent. The average rise in the first quarter was 1.6 percent across all firms, a six percent annual rate.

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION	1987	1988	1989	1989		1990	
CHANGE	APR	APR	APR	JUL	OCT	JAN	APR
Increased	24	24	26	26	26	24	27
1-2%	2	3	3	4	4	3	3
3-4%	7	8	7	6	8	6	8
5-6%	7	7	7	7	9	7	9
7-8%	2	2	3	3	3	3	2
9-10%	3	2	3	3	2	3	2
Over 10%	2	1	2	1	2	2	2
No Answer	*	1	1	*	*	1	1
Same	69	69	68	67	68	70	67
Decreased	2	1	1	1	*	1	1
No Answer	6	6	5	6	6	5	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.9%	5.6%	5.9%	6.0%	5.7%	5.8%	5.9%
All Firms	1.4%	1.4%	1.5%	1.5%	1.5%	1.4%	1.6%

* Less that 0.5%

The prognosis for even more frequent increases in the second quarter is clouded. Increases are not always most frequent in the first quarter of the year. Only twice in the last six years have average employee compensation increases been most frequent in the first quarter; three times, first quarter increases matched the year's highest quarter; once it was lower. Plans to raise average employee compensation in the next three months did fall. They declined from 26 percent in January to 22 percent in April (Table 10). But since 1987, plans have exhibited a strong seasonal variation while actual increases have shown none. Thus, planned increases have become very difficult to interpret. Finally, pressure on employee compensation continues to rise in several places. The minimum wage went up in April; health insurance, which is part of the compensation package in nearly two-thirds of NFIB member firms, continues to rise; and, despite loosening labor markets, the demand for employees, particularly skilled employees, remains strong in most parts of the country (see, Employment).

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION	1987	1988	1989	1989		1990	
CHANGE	APR	APR	APR	JUL	OCT	JAN	APR
Increase	18	20	22	18	20	26	22
1-2%	2	2	2	2	2	2	2
3-4%	6	6	6	6	5	9	7
5-6%	6	6	7	6	7	9	8
7-8%	1	2	2	2	2	2	2
9-10%	1	2	2	1	2	2	1
Over 10%	1	1	1	*	1	1	1
Don't Know	*	1	1	*	1	1	1
No Answer	1	*	1	1	*	*	*
Same	67	67	66	69	65	61	63
Decrease	1	1	*	1	1	1	1
Don't Know	10	10	10	9	11	10	12
No Answer	4	2	2	3	3	2	2
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.5%	5.5%	5.8%	5.6%	5.6%	5.5%	5.5%
All Firms	1.0%	1.3%	1.3%	1.0%	1.1%	1.4%	1.2%

*Less than 0.5%

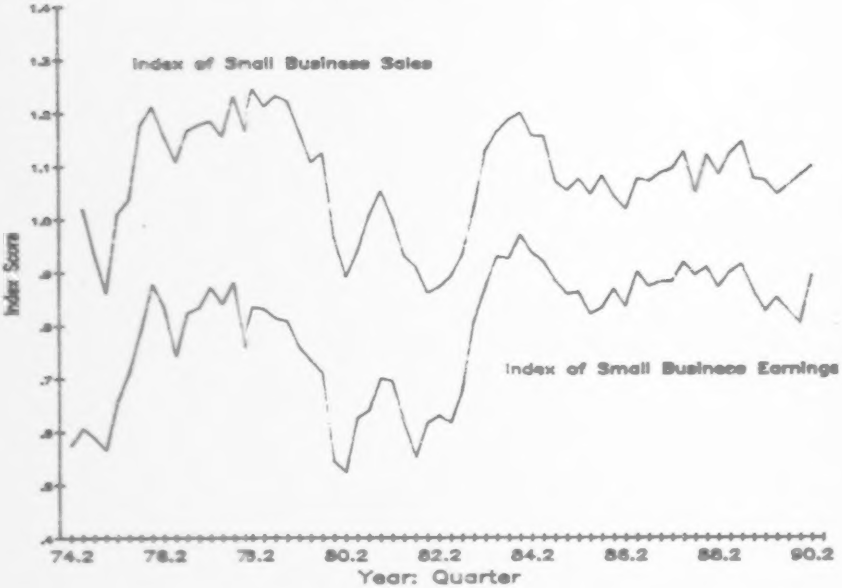
Sales

Small business sales continued to hold up well in the new decade's first quarter. April's Index of Small Business Sales rose (seasonally adjusted) for the third consecutive quarter (Chart 4). It lay at one of the highest points in the thin tunnel which has defined the Index's limits for almost six years. Thirty-one (31) percent reported higher sales in the first quarter than in the fourth compared to 30 percent who reported them lower (Table 11). Just 10 percent saw "Poor Sales" as their single most important problem (see, Single Most Important Problem), a typical expansion figure.

The second quarter is usually the most active quarter for small business. As a result, expected real sales rose substantially between the January and April surveys. Fifty-six (56) in April

Chart 4

INDICES OF SMALL BUSINESS
SALES AND EARNINGS



expected sales to be higher in the next three months than they were in the last three; 15 percent expected them to be lower (Table 12). But seasonally adjusted, a slight decline occurred. The stability of sales expectations between January and April (seasonally adjusted) typifies what has happened to sales expectations recently. In April, 1990, sales expectations were identical to those recorded one year ago though somewhat less favorable than those recorded in the same month two and three years ago.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR
QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1987	1988	1989	1989		1990	
SALES VOLUME	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	3	3	3	3	2	3	4
Higher	27	27	26	36	31	29	27
About the Same	37	41	40	40	43	40	39
Lower	23	24	25	17	20	24	25
Much Lower	6	4	5	3	3	4	5
No Answer	4	1	1	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED	1987	1988	1989	1989		1990	
REAL SALES	APR	APR	APR	JUL	OCT	JAN	APR
Go Up A Lot	13	13	11	6	7	7	11
Go Up A Little	45	47	45	38	36	36	45
Stay the Same	24	23	22	32	27	28	25
Go Down a Little	11	11	14	16	21	20	12
Go Down a Lot	2	2	3	3	5	5	3
Don't Know	3	3	3	3	3	4	3
No Answer	2	1	2	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Small business owners as a group are generally too optimistic in their sales forecasts. However, their forecasts accurately reflect changes in subsequent sales performance. On a seasonally adjusted basis, therefore, small business sales in the second quarter should be similar to those reported in the first.

Earnings

After trending down for a year and one-half, the seasonally adjusted Index of Small Business Earnings rebounded sharply in the first quarter (Chart 4). The Index rose to its highest point since the fourth quarter of 1988. Twenty-one (21) percent reported higher earnings in the first quarter than in the fourth; 37 percent reported them lower (Table 13).

Sales volume was the reason most often cited for higher or lower earnings (Table 14). The percentages citing sales volume were

Table 13

NET EARNINGS COMPARED TO PRIOR
QUARTER'S NET EARNINGS

NET	1987	1988	1989	1989		1990	
EARNINGS	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	2	1	1	1	1	1	2
Higher	18	19	18	25	22	18	19
Same	41	43	41	41	44	43	41
Lower	27	29	32	28	28	32	31
Much Lower	7	5	5	4	4	5	6
No Answer	5	3	3	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

typical. Other reasons offered for a change in earnings resembled patterns previously reported. However, a decreasing proportion cited factor costs as the most important reason for lower earnings. Just 19 percent identified factor costs, down 3 percentage points from the prior quarter and 8 percentage points from October. These changes preceded changes in small business selling prices by about one quarter and indicate on small business owners are currently facing fewer cost pressures than in the recent past (see, Prices).

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH	1987	1988	1989	1989		1990	
NET EARNINGS	APR	APR	APR	JUL	OCT	JAN	APR
Sales Volume	60	60	59	56	57	58	58
Higher Prices	10	10	11	8	11	9	11
Factor Costs*	8	5	7	4	7	5	4
Seasonality	14	16	12	27	18	20	19
Other; NA	8	9	11	5	7	8	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER	1987	1988	1989	1989		1990	
NET EARNINGS	APR	APR	APR	JUL	OCT	JAN	APR
Sales Volume	43	38	39	42	45	44	45
Factor Costs*	16	23	25	27	27	22	19
Seasonality	21	26	23	15	15	23	21
Other; NA	15	16	16	16	13	11	15
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

Employment

Labor markets remain tight in many parts of the country, particularly for skilled employees. Yet, small business owners are having less difficulty finding qualified employees than they have in the recent past. One reason is that small business demand for employees appears to be ebbing. The changes in small business employment patterns so far have been modest and gradual. It is even difficult to pinpoint when they began. But, they are occurring.

Employment in the nation's operating small businesses edged higher in the first quarter. Sixteen (16) percent increased overall employment compared to 15 percent who decreased it (Table 15). After adjusting for the number of employees involved in the changes, the net increase proved minimal. While the net number does not suggest any major weakness, the rate at which net new employees are taken on is gradually declining.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1987	1988	1990	1989		1990	
	APR	APR	APR	JUL	OCT	JAN	APR
Increased	13	15	14	21	17	12	16
Seasonal	5	6	5	11	6	3	6
Non-seasonal	8	9	9	10	11	9	10
Decreased	13	13	13	11	15	18	15
Seasonal	6	4	4	2	5	9	5
Non-seasonal	7	9	9	9	10	9	10
No Change	65	69	72	68	68	70	69
No Answer	9	3	1	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.8	3.9	3.9	4.2	3.3	3.3	4.7
Employees decreased per firm decreasing	4.2	4.0	4.2	3.1	3.0	4.6	5.2
Average net change per all firms	-.06	+.06	-.43	+.53	+.12	-.39	+.02

*Less than 0.5%

Current job openings illustrate best the modest loosening of labor markets. Twenty-one (21) percent reported one or more job openings in April (Table 16). April's figure remained high by series standards. But, a change is in process. The frequency of current job openings reached an expansion high in October, 1988, and has slowly fallen since. Though the number with current job openings were the same in April as they were in January, they had fallen below the 20 percent mark in February and March. April represented a rebound. However, the trend is downward. The number of small firms with job openings probably will continue to edge lower through the summer even if a month or two fights the overall direction.

Twenty-three (23) percent planned to increase their labor forces in the next three months and six percent planned to decrease them (Table 17). However, after seasonal adjustment, April's level of plans produced the second consecutive quarterly decline and the poorest showing in five of the last six quarters. Small business owners in the Pacific region were the most likely to be expanding payrolls. However, growth was expected with about the same degree of frequency in most parts of the country. The two exceptions were New England and the West South Central. Plans in those regions also suggested net increases. But, the increases were so small that seasonal adjustment wiped them out.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	19	23	23	24	23	21	21
Skilled Labor	12	14	15	17	15	15	14
Unskilled Labor	3	4	4	3	3	3	3
Both	4	4	4	4	5	3	4
No	80	77	76	75	77	79	78
No Answer	1	1	1	1	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increase	22	25	23	15	16	19	23
Keep the Same	71	68	69	74	73	72	69
Decrease	5	5	5	10	10	8	6
No Answer	2	2	3	1	1	1	2
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

Small business owners added comparatively little inventory during the first quarter which combined with no change in sales brought their balances back to a satisfactory level. Seasonally adjusted inventory plans indicated that a larger net percentage were poised to add inventories in April than were in January. But, small business owners have been watching inventories very carefully. If sales do not rise above those currently expected, therefore, they may not add the inventories now planned.

Nineteen (19) percent reported net additions to inventory in the the first quarter compared to 18 percent who reported allowing them to decline (Table 18). The inventory performance over the quarter was similar (seasonally adjusted) to that recorded in the fourth quarter, 1989, and poorer than comparable quarters since 1986. Smaller net inventory additions reflect the generally poorer sales climate that existed in 1989 compared to 1987 and 1988.

Small business owners as a group were satisfied with their inventory holdings in April. Ten (10) believed their inventories "Too Low" and 10 percent believed them "Too High" (Table 19). The

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increase	21	21	20	20	18	16	19
Same	43	44	43	44	46	43	44
Decrease	17	15	17	15	16	21	18
Not Applicable	17	18	19	20	19	20	18
No Answer	2	2	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

net zero percent was one of the more favorable evaluations of the expansion. This condition would normally require a positive assessment of small business inventory balances, and it does. However, April data sharply reversed January's general dissatisfaction. The change was large for the series (Chart 5) and suggested more volatility than probably desirable.

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Too Large	11	12	11	12	12	13	10
About Right	58	56	56	55	54	55	58
Too Low	10	10	10	10	10	9	10
Not Applicable	19	21	21	19	21	21	18
No Answer	2	1	2	4	3	2	4
Total	100%	100%	100%	100%	100%	100%	100%

Smaller previous additions, modestly improving sales and general satisfaction with existing balances suggest future net inventory additions. Small business owners did in fact increase the frequency of plans to make net inventory additions. Nineteen (19) percent had plans in April to increase net inventories compared to 12 percent who indicated plans to make net decreases (Table 20). That represented the third consecutive small quarterly small increase (seasonally adjusted). Any net increases probably will be modest.

Capital Expenditures

Capital expenditures made in the last three to six months ebbed seasonally and plans to make additional outlays in the next three to six months fell to their lowest point in the last two years. The capital expenditure boom recently experienced by small business

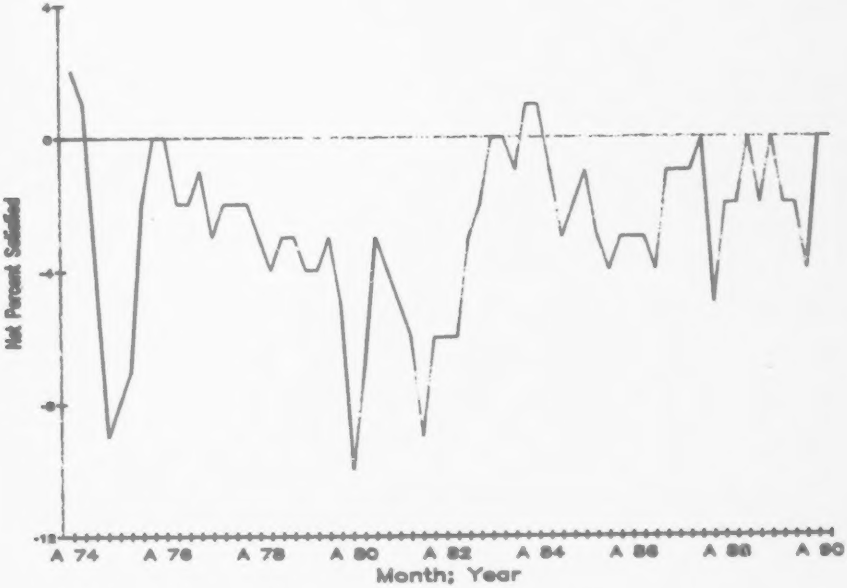
Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1987	1988	1989	1989		1990	
	APR	APR	APR	JUL	OCT	JAN	APR
Add	20	20	21	16	16	22	19
No Change	47	44	44	46	44	43	47
Decrease	13	14	12	15	17	13	12
Not Applicable	18	19	20	15	17	17	15
No Answer	3	3	3	8	6	5	7
Total	100%	100%	100%	100%	100%	100%	100%

Chart 5

INVENTORY SATISFACTION



clearly slowed. Other slow-downs have also occurred in the expansion, the most recent being one year ago. However, healthy levels of capital expenditures continue to characterize this expansion.

Fifty-five (55) percent reported making one or more capital expenditures in the last three to six months (Table 21), down two percentage points from January and two percentage points from April one year ago. Expenditures on equipment and vehicles normally dictate the changes in the frequency of capital expenditures made. April was no different. Forty-six (46) percent indicated outlays for equipment and vehicles, also down two points from January and from April one year ago.

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987	1988	1990	1989		1990	
	APR	APR	APR	JUL	OCT	JAN	APR
All Types+	53%	55%	57%	54%	56%	57%	55%
Equipment/ Vehicles	41	45	46	45	46	48	46
Add Buildings	7	6	8	7	6	5	6
Improved Buildings	14	16	16	15	16	17	16
Land	4	3	4	4	4	4	4

+Percent of firms making one or more capital expenditures

The relative size of total expenditures also fell. The proportion of expenditures above $100,000 fell from the prior three quarters (Table 22). Meanwhile, the proportion of expenditures under $5,000 rose.

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1987	1988	1989	1989		1990	
	APR	APR	APR	JUL	OCT	JAN	APR
Under $1	8	5	6	4	7	5	7
$1 - 4	19	19	19	18	20	21	21
$5 - 9	16	15	16	13	16	15	14
$10 - 19	20	22	17	24	21	19	20
$20 - 49	18	19	18	20	16	18	19
$50 - 99	9	9	10	9	8	10	9
$100 - 499	7	8	11	11	10	10	9
$500 - 999	2	1	2	*	2	1	1
$1,000 or More	1	1	1	1	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Planned capital outlays tumbled in April to 32 percent, down three percentage points from January (Table 23). On a seasonally adjusted basis, April's was the poorest performance in seven quarters and the second poorest in the last ten. But, April's fall was from a comparatively high base. Plans to make capital expenditures still remained high by series norms. Thus, capital expenditures should continue to be one of the more positive elements of the small business economic condition for the next three to six months.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1987 APR	1988 JAN	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	32	33	33	31	31	35	32
No	52	51	52	55	54	50	52
Don't Know	12	12	11	11	12	12	12
No Answer	4	4	4	3	3	3	4
Total	100%	100%	100%	100%	100%	100%	100%

Single Most Important Problem

No single problem preoccupies small business owners. However, "Taxes" was most frequently cited as the single most important problem of smaller firms (Table 24). Twenty-three (23) percent noted "Taxes," one percentage point higher than in January. Not since October, 1984, has any other problem been cited with greater frequency.

Eighteen (18) percent cited "Government Regulation(s)/Red Tape" as their single most important problem. Those most likely to cite the problem were in the transportation/communications, financial services and professional services industries. The 18 percent tied a survey record high for the problem established in January, 1988, and equalled in January, 1990. No particular legislation or incident appears responsible for the recent relative importance of regulation and red tape. Since 1985 the number citing the problem has been relatively high. The trend has been even more pronounced in the last two years. One explanation for the rise is that as immediate, pressing problems, e.g., interest rates and poor sales, decline in relative importance, nagging problems, e.g., regulation/red tape and taxes, increase.

Much of the same rationale applies to the progressive increase in the number of small business owners citing the "Quality of Labor" as their single most important problem. The percentage citing "Quality of Labor" ebbed from January to 9 percent reflecting looser employment conditions. However, labor quality as a problem has been cited with gradually increasing frequency over the last eight years. The difference between regulation and labor quality as problems is that the evidence indicates that labor quality concerns are much more than a reaction to declines in concern about immediate problems. They clearly reflect the increasing difficulty small employers find recruiting qualified help.

Neither the number of small business owners pointing to "Poor Sales" nor to "Inflation" suggest a major change in economic direction. Just 10 percent cited "Poor Sales" as their single most important problem, down one percentage point from January and typical of the number citing poor sales over the last two years. For almost three years prior to October, 1987 - the early part of the expansion - the proportion mentioning poor sales was higher than it is today. The change is another indication of a mature expansion with no end yet in sight.

The percent (4) citing "Inflation" has been steady over the last five quarters. With the exception of 1986 and 1987 when the figure moved in the 2-3 percent range, the proportion citing inflation has remained much the same since 1984. It did not change even when inflation temporarily spurted upward - early 1989 and early 1990. Thus, the number citing inflation appears to reflect underlying price pressures rather than temporary phenomena.

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High		Prior Low		1989				1990			
					JUL		OCT		JAN		APR	
	Date	%	Date	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	7/88+	25	10/74	8	1	21	1	22	1	22	1	23
Inflation	10/74	41	10/87+	2	8	4	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	1	3	10	3	11	3	11	3	10
Interest Rates & Financing	4/82+	37	7/77	4	3	10	6	7	6	7	6	7
Cost of Labor	7/77	9	7/82	2	7	7	7	6	6	7	6	7
Government Regulation(s)/ Red Tape	1/90+	18	7/82+	4	2	17	2	17	2	18	2	18
Competition from Large Business	10/76	13	4/80+	4	3	10	3	11	4	10	4	9
Quality of Labor	10/88+	12	1/83+	3	3	10	3	11	4	10	4	9
Shortage of Fuel Material, Goods	1/74	23	1/90+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	11	-	11	-	11	-	13
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
+ Most recent

Index of Small Business Optimism

The seasonally adjusted Index of Small Business Optimism nosed up 0.1 points between January and April. April's Index stood at 100.8 (100=1978) (Table 25), similar to levels registered over the past five years. Since January, 1985, the Index has moved in a thin tunnel bounded by a 99.5 score on the low side and a 102.9 score on the high side (Chart 6). The comparable series scores have been 81.1 and 108.7 respectively. Thus, April's Index extends the current pattern and indicates that no major changes in national economic activity should be expected in the coming three months.

Table 25

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX	1987	1988	1989	1989		1990	
COMPONENTS	APR	APR	APR	JUL	OCT	JAN	APR
General Expectations[1]	117.0	117.5	110.3	107.8	108.3	109.3	114.4
Current Status[2]	101.3	101.7	101.3	106.0	104.4	100.0	101.3
Spending Plans[3]	119.0	119.7	120.0	112.3	112.0	118.3	118.7
Index*	112.8	113.4	110.5	108.6	108.1	109.2	111.9
Index (1978=100)+	101.7	102.3	99.5	99.8	102.1	100.7	100.8

*Index numbers
+Seasonally Adjusted
[1] Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2] Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3] Plans to Hire, Make Capital Expenditures, Add to Inventories

Regional Conditions

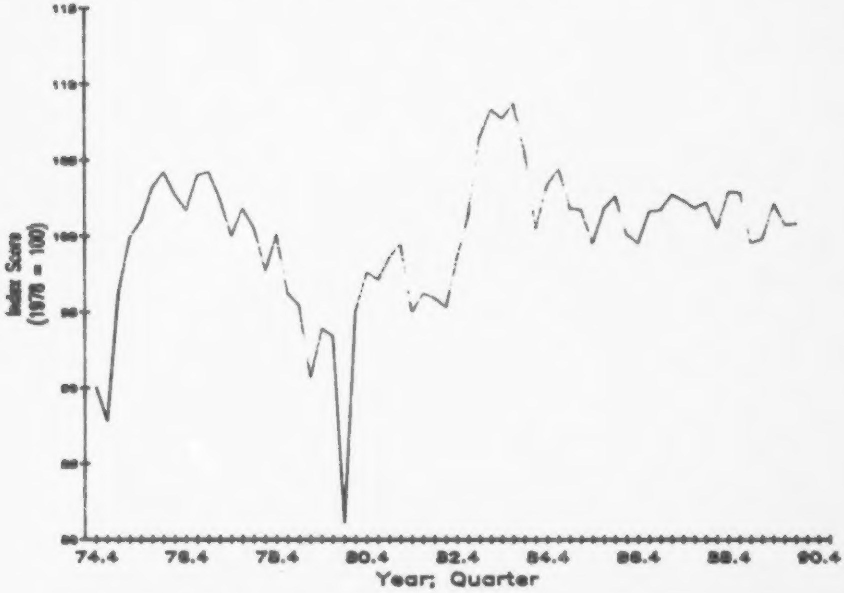
In April, small business owners in the Pacific, Mountain and Great Lake regions produced Indices of Small Business Optimism above the national average. Those in the New England, Mid-Atlantic, and Plains regions produced them below. Small business owners in the remaining three regions - South Atlantic, East South Central, West South Central - approximated the national average.

April's Index was higher than January's (seasonally adjusted) in six of the nine regions and higher than last April's in five of the nine. The Index for the South Atlantic region did not change compared to January or to last April. Small business owners in the Pacific region produced the nation's highest Index which improved on January, but showed no change in a year's span. New England and Mid-Atlantic small business owners produced an April Index lower than both January's and April's one year ago.

A theory currently fashionable suggests that the United States will experience far fewer (or no) national recessions in the years

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



ahead. Recessions as we know them will be replaced by rolling regional and industry down-turns. The small business data collected in this survey give some credence to the theory. They indicate that the relative fortunes of small business in various parts of the country change, often dramatically, over time. One or two regions "ride high" for period and then fall. They are replaced by others.

Small business in every region has not experienced such "ups" and "downs" over the 17 years these data have been collected. A few have experienced little relative change. But that only serves to underscore the changes occurring elsewhere.

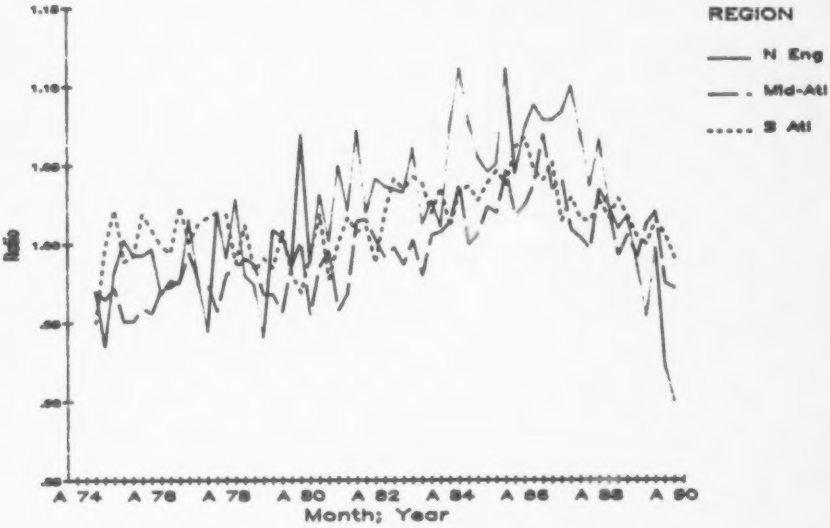
Charts 7, 8, and 9 present the relative fortunes of small business owners in each of the regions. They graph each region's Index as a ratio of the national Index.

The two regions in which small business fortunes have undergone the most dramatic change are New England (Chart 7) and the West South Central, i.e., Texas, Oklahoma, Louisiana, Arkansas (Chart 9). New England's Index moved from the nation's lowest in the mid-70's to the highest in the mid-80's and back to the lowest in the late-80's and early-90's. It has trended down (seasonally adjusted) for five of the last six quarters. Within the last 12 months, New England's Index tumbled eight percent.

The West South Central region's Index followed a different, but equally tortuous path. It rose quickly in the early 80's, fell even more quickly in the mid-80s, and is now back at the national average. Credit conditions, particularly availability, continue to cause problems for small business owners in the region.

Chart 7

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS OPTIMISM TO THE NATIONAL INDEX - NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS



Other regional changes have been important but not as dramatic. Small business fortunes in the Great Lakes region (Chart 8) have shifted substantially, but more slowly than those of either New England or the West South Central. The slower change in the region's relative Index can be attributed the fundamental restructuring which is occurring (economic reason) and the fact that the region comprises a larger portion of the national average (mathematical reason). Nonetheless, the old Rust Belt has recovered from its 70's slide and the region's small business owners are now producing quarterly Indices that are among the nation's best.

The Mountain region has been the reverse (Chart 9). It's Index was generally above the national average during the 1970's and then dropped below during the 80's. Small business in the region appeared to hit bottom in 1987 and since has improved. The regional Index was back above the national average in April.

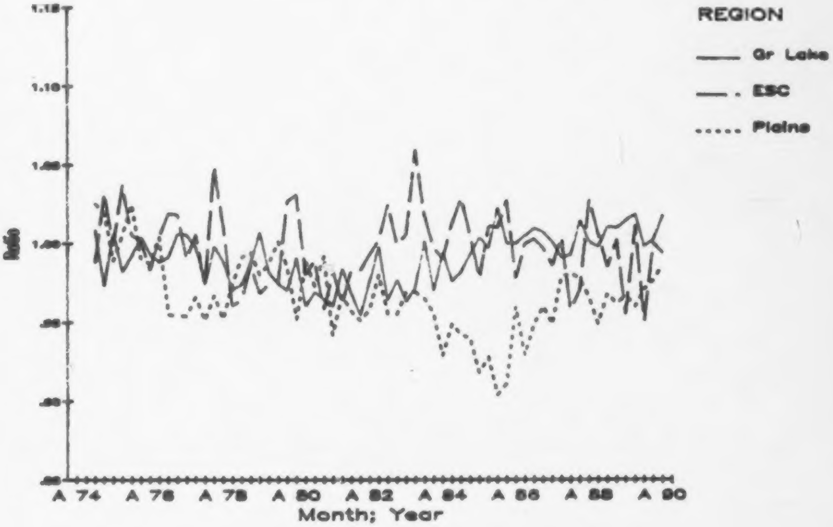
The Mid-Atlantic region has undergone a similar, but smaller change than has neighboring New England (Chart 7). Throughout the

1970's and early 80's, the Mid-Atlantic's Index was consistently one of the nation's poorest. But the recovery proved particularly strong for small businesses in the region. By 1987, the region's Index was one of the country's highest. Since, it has continued to edge lower.

The South Atlantic's Index has recently followed a course similar to that of other eastern regions (Chart 7). After several years of average or above-average performance, the Index was headed comparatively lower. The change appeared more gradual than elsewhere in the east. In fact, the Index changes produced by small business owners in the South Atlantic region have been consistently less pronounced. But the direction was unmistakable.

Chart 8

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS
OPTIMISM TO THE NATIONAL INDEX - GREAT LAKES,
EAST SOUTH CENTRAL, PLAINS REGIONS



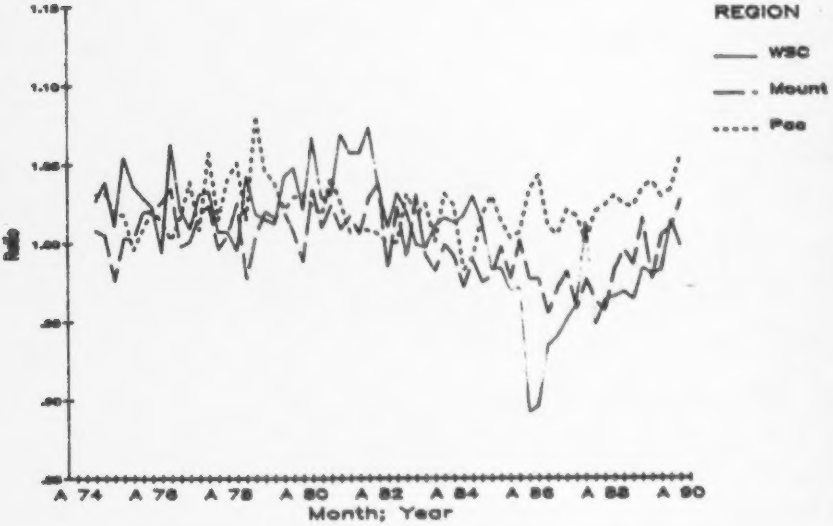
The East South Central region's Index has shown no particular direction over the sixteen years of data presented (Chart 8). It has bounced around the national average during most of the period. The Index reached its high in the early 1980's and since has been trending very gradually lower. Though still bouncing considerably, small business owners in the region have been generally less optimistic over the last two or three years than small business owners across the country.

The Pacific region (Chart 9) has enjoyed relative stability and at a favorable level. The region's small business owners typically produce the nation's highest Index though at times other regions have temporarily surpassed it.

The Plains has been the region where small business owners have been most likely to struggle (Chart 8). It's Index has consistently fallen below the national average. In 1985, as the most of the country enjoyed a strong recovery, small business in the Plains fared relatively poorly. Relative conditions have progressively improved over the last five years. Yet, the region's Index continues to fall below the national average.

Chart 9

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS OPTIMISM TO THE NATIONAL INDEX - WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April, 1990
Less than $50,000	7	5	1	1	7	12	6	18	6	8
$50,000-99,999	10	5	6	3	12	11	13	20	17	11
$100,000-199,000	17	14	7	6	15	23	13	17	23	16
$200,000-349,000	15	12	19	7	17	10	14	19	18	15
$350,000-799,999	20	19	19	18	22	22	14	13	17	19
$800,000-1,499,999	13	16	30	20	10	11	15	6	9	12
$1,500,000-2,999,999	18	12	7	16	7	6	10	3	7	8
$3,000,000 or more	7	16	8	27	7	3	12	2	3	9
Not Ascertained	3	1	3	2	3	2	3	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	327	273	86	190	693	125	179	334	164	2377
Percent of Firms	14	12	3	8	29	5	8	14	7	100%

* Less than 0.5%.

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April, 1990
1	5	3	1	1	6	10	11	10	10	6
2	6	5	1	5	10	15	11	19	8	10
3 - 5	31	18	24	24	29	34	43	35	34	30
6 - 9	18	19	33	21	19	14	11	17	23	19
10 - 14	17	14	14	15	12	9	7	7	6	11
15 - 19	8	11	8	6	8	7	5	2	6	7
20 - 39	8	16	8	14	9	5	8	6	9	9
40 or more	6	14	9	13	6	5	4	3	4	7
No Answer	1	*	2	2	1	1	*	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship　2 Partnership　3 Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle *the one* which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, **etc.**)
2 Manufacturing and mining (including dairy processor, printer, publisher, **etc.**)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, **etc.**)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., **etc.**) 2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, **etc.**)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, **etc.**
7 Financial, insurance, real estate, bank, savings & loan, **etc.**
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, **etc.**
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, **etc.**
10 Other (please describe) ____________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following): 3

1 Taxes
2 Inflation
3 Poor sales
4 Interest rates & financing
5 Cost of labor
6 Government regulation(s) & red tape
7 Competition from large businesses
8 Quality of labor
9 Shortage of fuels, materials or goods
0 Other ____________________ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

1 Yes　2 No　3 Uncertain 4

4a. Why? (Circle **ONE** answer — ***most important reason***) 5

1 Economic conditions
2 Sales prospects
3 Financing & interest rates
4 Cost of expansion
5 Other ____________________ (please explain)

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse? 6

1 Much better
2 Somewhat better
3 About the same
4 Somewhat worse
5 Much worse
6 Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues? 7

1 Under $12,500
2 $12,500–24,999
3 $25,000–49,999
4 $50,000–87,499
5 $87,500–199,999
6 $200,000–374,999
7 $375,000–749,999
8 $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

1 Much higher　2 Higher　3 About the same　4 Lower　5 Much lower 8

6b. If higher or lower, by approximately what percentage? 9

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

1 Much higher　2 Higher　3 About the same　4 Lower　5 Much lower 10

7a. If higher or lower, by approximately what percentage? 11

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

1 Sales volume   4 Availability of materials   6 Financing costs   12
2 Labor costs   5 Received higher prices for your product or service   7 Usual seasonal change
3 Cost of materials   8 Other ______________ (Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

1 Go up a lot   3 Stay the same   5 Go down a lot   13
2 Go up a little   4 Go down a little   6 Don't know

9. How are your average selling prices now compared to three months ago?

1 Lower now   2 No difference   3 Higher now   4 Don't know   14

9a. If ***higher or lower***, by what percent, on an average?

1 Less than 1%   3 2.0–2.9%   5 4.0–4.9%   7 8.0–9.9%   9 Don't know   15
2 1.0–1.9%   4 3.0–3.9%   6 5.0–7.9%   8 10% or more

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

1 Yes, raise prices   2 Yes, lower prices   3 No change   4 Don't know   16

10a. If raise or lower, by what percent, ***on average***?

1 Less than 1%   3 2.0–2.9%   5 4.0–4.9%   7 8.0–9.9%   9 Don't know   17
2 1.0–1.9%   4 3.0–3.9%   6 5.0–7.9%   8 10% or more

11. How many employees do you have full and part-time ***including yourself***?

1 One   3 3–5   5 10–14   7 20–39   18
2 Two   4 6–9   6 15–19   8 40 or more

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

1 Increased by ____ employee(s)   2 Decreased by ____ employee(s)   3 Stayed the same   19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

1 Yes   2 No   22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

1 Increase   2 Keep the same   3 Decrease   23

14. Do you have any job openings that you are ***not*** able to fill right now?

1 Yes, for skilled labor   3 Yes, both skilled and unskilled labor   24
2 Yes, for unskilled labor   4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

1 Less than one month   3 Three months, but less than six months   25
2 One month, but less than three months   4 Six months or more

15. During the last three months, did you increase or decrease your inventories?

1 Increase   2 About the same   3 Decrease   4 Not appropriate   26

15a. If increase or decrease, by approximately what percent?

1 Less than 6%   3 11%–15%   5 21%–25%   7 36%–50%   27
2 6%–10%   4 16%–20%   6 26%–35%   8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

1 Too large   2 About right   3 Too low   4 Not appropriate   28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

1 Add   2 Keep the same   3 Decrease   4 Not appropriate   29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐ 1 Much higher 30
☐ 2 Higher
☐ 3 Same
☐ 4 Lower
☐ 5 Much lower
☐ 6 Don't know
☐ 7 Inapplicable, do not borrow regularly

17a. Are these loans easier or harder to get than they were ***three months ago***?

☐ 1 Easier
☐ 2 Same
☐ 3 Harder
☐ 4 Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐ 1 Easier
☐ 2 Same
☐ 3 Harder
☐ 4 Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: ☐ 1 Yes 36
Additional Buildings: ☐ 1 Yes 37
Improved Buildings: ☐ 1 Yes 38
Additional Land: ☐ 1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐ 1 under $1,000 40
☐ 2 $1,000–4,999
☐ 3 $5,000–9,999
☐ 4 $10,000–19,999
☐ 5 $20,000–49,999
☐ 6 $50,000–99,999
☐ 7 $100,000–499,999
☐ 8 $500,000–999,999
☐ 9 $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐ 1 Yes
☐ 2 No
☐ 3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐ 1 Increase
☐ 2 Keep the same
☐ 3 Decrease
☐ 4 Don't know 42

21a. If Increase or Decrease, by what percentage on average?

☐ 1 1-2% 43
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10%
☐ 7 Don't know

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐ 1 Increased
☐ 2 Kept the same
☐ 3 Decreased 44

22a. If Increased or Decreased, by what percentage on average?

☐ 1 1-2% 45
☐ 2 3-4%
☐ 3 5-6%
☐ 4 7-8%
☐ 5 9-10%
☐ 6 Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

☐ 1 A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
☐ 2 A small city (population over 15,000 but under 100,000 in city and immediate area)
☐ 3 A rural area (population under 15,000 in city and surrounding communities)

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The NFIB Foundation

Quarterly Economic Report for Small Business

Summer 1990

GEORGE STEIN
ATTORNEY AT LAW
RICHARD SMITH
D.D.S.
CAROL'S
DRESSES
ACME
TRANSIT

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Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 68)

The 68th in series of quarterly economic reports based on survey data obtained during July 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J.Dennis, Jr.
The NFIB Foundation

The Index of Small Business Optimism, an excellent indicator of change in the Gross National Product (GNP), fell to its lowest point since the 1981-82 recession. It reflected the broad-base economic weakness now permeating the small business sector. July's small business data found an economy teetering on the brink of recession. Moreover, the Iraqi invasion of Kuwait in early August and the subsequent rise in oil prices came too late to affect their calculations. While it is possible the economy can rebound once again, small business owners were not optimistic.

The second quarter held up reasonably well. No area of performance fell sharply. The so-called "credit crunch" continued to find more voice among the press than among small business owners. Inventories appeared in reasonably good shape. Capital expenditures were steady. Selling prices rose less frequently than earlier in the year, though escalating compensation costs helped create an earnings squeeze. Yet, the quarter's Index of Small Business Sales challenged the expansion low. Earnings were weak. The average number of jobs lost in firms reporting net loses was extraordinarily large. Though current job openings remained surprisingly strong, the demand for unskilled labor fell. Thus, activity in the quarter was mixed with unhealthy signs plentiful.

The third quarter will be poorer than the second. The outlook was pessimistic both on a relative and an absolute basis - nothing extreme, but pessimistic. Sales expectations were among expansion lows. Small business owners believed credit would become more difficult to get whatever their current experiences. Plans to make capital expenditures, a strength over the last several quarters, declined on due to slower sales, poorer earnings and credit fears.

This report is based on a random sample survey of NFIB members conducted during the month of July, 1990. Two thousand one hundred and fifty-eight (2,158) small and independent business owners returned usable questionnaires from the 7,202 mailed for a 30.0 percent response rate. A profile of respondents is located in the Appendix.

Job growth was forecast to be marginal though it may prove optimistic. Planned inventory increases was the only positive element.

While virtually all aspects of July's small business data were negative, an overly pessimistic conclusion could be too easily reached. The direction is clear. Conditions are declining. They have been declining throughout the first half of the year. The level of activity is not glowing, either. But, the level is still not bumping up against a recession, though continued deterioration would make that inevitable.

Outlook

The small business outlook in July continued to be weak. While not at levels typically accompanying recessions, few small business owners looked favorably on current conditions or their immediate prospects. The encouraging aspect was that July's figures were no worse, and even a bit better, than one year ago. However, the overall trend, ignoring the usual "ups and downs," began moving lower in the 1984-85 period and continues. But the decline of the outlook indicators has been tempered by the rate of their fall. The decline in late 1980s has been more gradual than the rapid decline of the late 1970s which resulted in recession.

More small business owners believed general business conditions would deteriorate in the next three to six months than believed they would improve. Seventeen (17) percent expected

TABLE 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH BETTER	2	1	1		1	2	2	1
BETTER	18	15	14		19	22	20	16
SAME	59	54	58		60	57	57	53
WORSE	13	18	19		12	13	13	20
MUCH WORSE	1	3	2		1	1	1	2
DON'T KNOW	6	8	6		6	5	6	7
NO ANSWER	1	1	*		1	*	1	1
TOTAL	100	100	100		100	100	100	100

conditions to get "better;" 22 percent expected them to get "worse" (Table 1). July was the poorest monthly showing in a year.

Assessment of the climate for small business expansion yielded the same result. Just 14 percent thought current conditions conducive for small business expansion (Table 2). July's number represented a three percentage point tumble from June, a level which had been typical over the last 12 months. Yet, only twice within the last four and one-half years has the assessment been as bad or worse - in February, 1990, and February, 1988. However, the climate for small business expansion would have to fall to three percent before it could match the survey record low recorded in April, 1980.

The reasons for owners' views on the expansion climate were similar to those provided in April. General economic conditions and sales prospects dominated whether the view was positive, negative or uncertain. The major change registered in the last three months was the reversal in positions of economic conditions and sales prospects among those with a positive view. Sales prospects was cited more frequently in July than economic conditions, a reversal of the normal order (Chart 1). This suggests that a favorable outlook is increasingly tied to real situations or events rather than just a good feeling. Reliance on the more concrete rather than the more abstract is another indication that small business owners are losing confidence in the general train of events.

Table 2

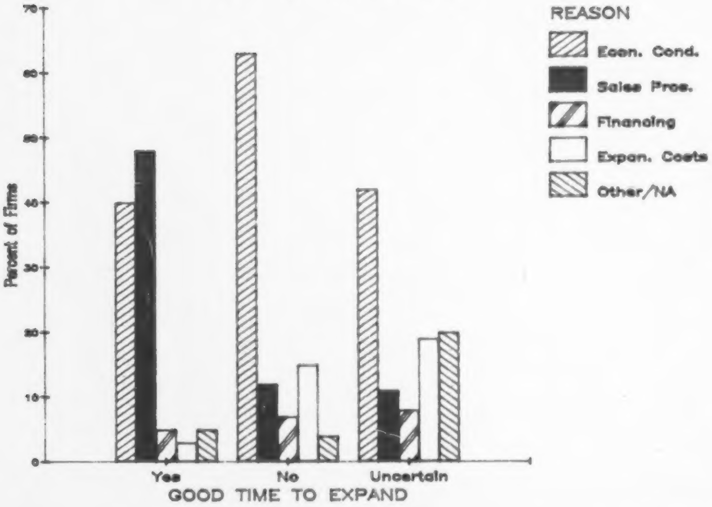
Climate for Small-Business Expansion in Next Quarter

Good Time to Expand	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Yes	20	19	17		15	15	17	14
No	42	43	45		46	50	46	54
Uncertain	37	37	37		38	34	36	32
No Answer	1	1	1		1	1	1	*
TOTAL	100	100	100		100	100	100	100

Few owners tied their view of the climate to financing conditions. Nearly twice as many among those holding negative and uncertain views cited expansion costs as cited financing. In fact, those offering financing as the primary reason for their favorable view were just two percentage points fewer than the proportion of

CHART 1

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION



negatives who cited money problems. These data provide no evidence that problems in the small business sector are related to either the availability or cost of credit (see, Credit Conditions).

Credit Conditions

Credit conditions continued to deteriorate. But the deterioration proved relatively modest on a national scale. The cost of credit slid. Availability rather than price was the problem where a problem existed. However, availability issues seemed confined to specific parts of the country. The parts of the country affected did grow from April. The problem in July no longer affected just New England and the West South Central states. It had spread down the Atlantic seaboard and spilled into the central parts of the country. Yet, the quantitative evidence did not support the alarmist views frequently expressed.

A net 10 percent of survey respondents reported credit more difficult to obtain in the last three months than in the prior three. One percent reported loans "easier" and 11 percent reported them "harder" (Table 3). July's number was a two percentage point increase from April and four percentage points from January. While the direction of these data was clear, the pace of decline was moderate.

Availability was not unusually difficult on an historical basis. The record high for the series was a net 0 percent recorded in January and April, 1977. The record low was a net -32 percent recorded in April, 1980. Because of the aberrant nature of early, 1980, a more appropriate comparative number was the next to record low of -19 percent (October, 1974, and October, 1979). Thus, July's -10 percent falls in the middle of its historic boundaries.

Table 3

Current Availability of Loans Compared to Availability in Prior Quarter

Loan Availability	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Easier	2	1	1		1	1	1	1
Same	27	25	25		26	25	24	22
Harder	8	7	8		7	7	9	11
Don't Know	1	2	1		2	3	1	1
Don't Borrow; No Answer	62	65	65		64	64	65	64
TOTAL	100	100	100		100	100	100	100

Availability numbers are based only on respondents who are "regular borrowers," i.e., those who report themselves as borrowing once or more a quarter. Thirty-six (36) percent were regular borrowers in July continuing small business's weak demand for debt capital. With the exception of the first quarter of 1989, fewer than 40 percent have considered themselves regular borrowers since 1986. The proportion borrowing regularly has not been consistently over 40 percent since 1983. This weak demand has taken some of the sting out of any bank tightening that has occurred. However, it should be pointed out that a -10 percent of regular borrowers at the current rate of regular borrowing implies -30 percent among borrowers only.

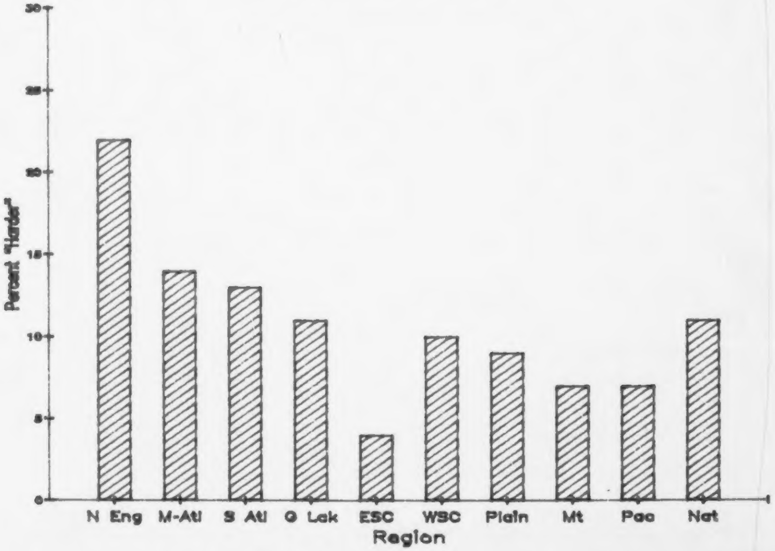
Credit availability proved highly regional. As a rule, the farther west, the more favorable conditions were. Chart 2 illustrates. New England has been the region most seriously impacted. Twenty-two (22) percent or 56 percent of all regular borrowers in the region reported credit harder to obtain in the spring quarter than in the prior three months. Next in line was the Mid-Atlantic region at 14 percent, followed by the South Atlantic at 13 percent. The Pacific, Mountain and East South Central regions, the latter a geographic aberration, were the regions where credit availability was "easiest." Of note was the continued relative improvement in the situation of borrowers in the

West South Central region. Just 10 percent reported loans harder to get in July, fewer than the national average. Between 1986 and 1989, borrowers in the region were customarily more than twice as likely as the national average to report loans more difficult to obtain.

The price of short term business loans was virtually unchanged between the first quarter and the second. It declined a mere one-tenth of one percent, making the total decline three-tenths of one percent over the last six months (Table 4). The number who reported no change in interest rates in the preceding three months compared to the prior quarter reflected the overall stability of recent interest rates (Table 5). The number reporting no change from the prior quarter rose to 24 percent or two-thirds of all regular borrowers.

CHART 2

NET PERCENT REPORTING IT "HARDER"
TO GET A BUSINESS LOAN



Other survey data also showed no major problem with credit or finance. Just seven percent called "Interest Rates-Financing" their single most important problem (see, Single Most Important Problem). Just seven percent who thought the climate for small business expansion was not good attributed their view to financing; only nine percent who were uncertain pointed to it. Thus, the tenor of the entire survey, not just those questions directed specifically to financing, produced a composed assessment of credit conditions.

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

INTEREST RATE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
UNDER 10%	9	4	1		1	1	1	1
10-12%	29	34	24		31	32	38	41
13-15%	6	7	17		12	14	12	11
16% OR MORE	3	2	2		5	3	3	2
PRIME +1	30	29	29		31	29	25	25
PRIME +2	20	20	23		18	17	18	18
PRIME +3 OR MORE	3	4	4		2	4	3	2
TOTAL	100	100	100		100	100	100	100
AVERAGE RATE (%)	10.6	11.2	12.8		12.6	12.2	12.0	11.9

Small business owners were growing more concerned about their financing needs. A net 11 percent expected credit conditions to deteriorate in the next three months (Table 6). July's assessment represented a three percentage point tumble from April and five from January. These expectations were in line with what owners currently in the market and did not appear alarmist. The series extremes were -40 percent recorded in April, 1980, (otherwise, -29 percent in October, 1979), and -1 percent in April, 1983.

Prices

Small business owners provided consumers and the economy good news on prices. Not only did the frequency of selling price increases continue to decline in July, but plans to raise prices in the next three months remained comparatively stable. The wild card was oil which was not a factor when July's small business data were collected.

Twenty-four (24) percent reported higher average selling prices in the last three months than in the prior three months (Table 7). July's report was three percentage points below June's level and six percentage points below April's. Each is a comparatively large decline in such a short period. In addition, the number reporting lower average selling prices rose two percentage points (from both April and June) to 11 percent. The numbers are the most favorable, excepting November dips in each of the last two years, since late 1987. However, decline in the frequency of price increases could be at an end.

Table 5

Current Interest Rates Compared to Interest Rates in Prior Quarter

Relative Interest Rates	1977 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Much Higher	1	*	1		1	*	1	*
Higher	18	17	14		9	7	8	8
Same	16	15	12		18	21	21	24
Lower	2	1	7		7	7	4	2
Much Lower	*	*	*		*	*	*	*
Don't Know	1	2	1		1	1	1	2
Don't Borrow; No Answer	62	65	65		64	64	65	64
TOTAL	100	100	100		100	100	100	100

Table 6

Expected Financing Conditions Next Quarter Compared to Current Quarter

	1987	1988	1989		1989	1990	1990	1990
Easier	2	2	1		1	2	1	1
Same	25	22	23		24	22	22	20
Harder	8	8	8		7	8	9	12
Don't Know	3	3	3		4	4	3	3
Don't Borrow; No Answer	62	65	65		64	64	65	64
Total	100	100	100		100	100	100	100

Twenty-three (23) percent planned to raise prices in the next three months (Table 8). July's number represented a substantial improvement (seven percentage points) from January and a modest improvement (two percentage points) from April. However, July's data was a step backward from May and June. July plans were two percentage points higher than June's.

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PRIOR QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
LOWER NOW	10	9	9		9	9	9	11
NO DIFFERENCE	62	58	59		61	59	59	63
HIGHER NOW	24	29	29		28	31	30	24
< 1%	1	1	1		1	*	1	*
1.0-1.9%	3	3	3		4	4	4	3
2.0-2.9%	3	5	5		5	5	5	4
3.0-3.9%	3	3	4		3	4	4	3
4.0-4.9%	3	4	4		4	5	4	4
5.0-7.9%	5	6	6		6	6	6	5
8.0-9.9%	2	1	1		1	2	1	1
10% OR MORE	3	5	4		3	4	3	3
NO ANSWER	1	1	1		1	1	2	1
NO ANSWER	4	4	3		2	1	2	2
TOTAL	100	100	100		100	100	100	100

Planned price increases have led actual price increases in the past (Chart 3). Over the last 12 months, the relationship has not been as smooth as in the prior three years, suggesting unexpected cost increases. Problems in the Middle East make price forecasting more difficult. However, small business owners have anticipated the underlying rate of inflation exceedingly well. Their price plans capture the magnitude and direction of inflation. Currently, their plans forecast no change.

Table 8

Planned Price Changes for the Next Quarter

Planned Price Changes	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Lower	3	2	3		3	3	3	3
No Change	68	53	59		56	50	56	58
Increase	22	26	24		25	32	25	23
< 1%	1	*	*		1	1	1	1
1.0-1.9%	2	2	3		2	4	3	2
2.0-2.9%	4	3	4		4	5	5	4
3.0-3.9%	4	4	3		3	4	3	3
4.0-4.9%	2	4	3		4	5	3	3
5.0-7.9%	5	7	6		6	7	6	5
8.0-9.9%	1	2	1		1	1	1	1
10% or More	2	3	3		3	3	2	3
Don't Know	1	2	1		1	2	2	1
Don't Know	13	14	12		14	13	14	15
No Answer	4	5	2		2	2	2	1
TOTAL	100	100	100		100	100	100	100

Compensation

Despite fewer selling price increases, small business owners raised compensation in the second quarter with the greatest frequency since the series was instituted in 1984. They planned (hoped) to assume greater control over those increases and reduce their frequency in the next three months. However, the gap between plans and actual increases has been rising over the last two years. It has been particularly large between July plans and October outcomes.

Twenty-nine (29) percent of small business owners reported raising overall compensation in the last three months (Table 9). The average increase was 6.0 percent per firm increasing compensation and 1.7 percent across all firms. Both frequency and average increases were among the largest in the six and one-half year history of the series. These increases had an effect on the

CHART 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES

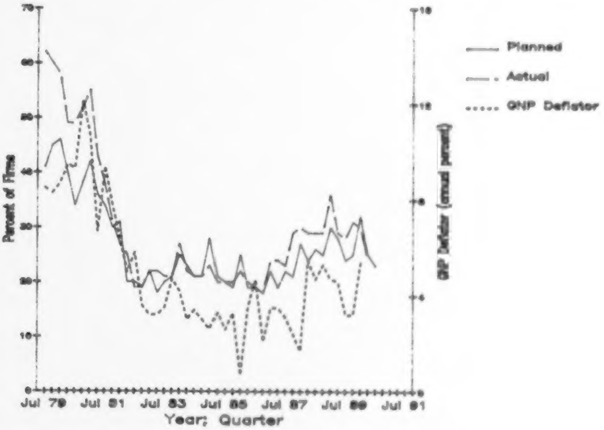


TABLE 9

CHANGE IN AVERAGE COMPENSATION OVER THE PRIOR QUARTER

COMPEN-SATION CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	23	25	26		26	24	27	29
1-2%	3	3	4		4	3	3	4
3-4%	7	7	6		8	6	8	7
5-6%	7	8	9		9	7	9	9
7-8%	2	3	3		3	3	2	2
9-10%	2	2	3		2	3	2	3
OVER 10%	1	2	1		2	2	2	3
NO ANSWER	1	*	*		*	1	1	1
SAME	70	69	67		68	70	67	64
DECREASED	1	1	1		*	1	1	1
NO ANSWER	6	5	6		6	5	5	6
TOTAL	100	100	100		100	100	100	100

COMPEN-SATION CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	23	25	26		26	24	27	29

AVERAGE INCREASE	%	%	%		%	%	%	%
FIRMS INCREASING	5.9	5.9	6.0		5.7	5.8	5.9	6.0
ALL FIRMS	1.4	1.5	1.5		1.5	1.4	1.6	1.7

bottom line as 14 percent of owners reporting lower earnings indicated the principal reason was labor costs (see, Earnings).

Part of the reason for the relatively large number of increases probably lies with the "escalator effect" from April's minimum wage hike. In those instances, owners gave raises to keep a wage differential throughout the workforce. Another reason is the increasing cost of employee benefits such as health insurance. In large and medium sized firms benefits have been rising much faster than wages. There is no reason to believe that the situation facing small business owners is anything but more severe. A possible third reason is tight labor markets at least for some types of employees. Rising unemployment and lower demand for labor would seem to argue against tight labor markets (see, Employment). Yet, they appear to be growing in at least some parts of the country (see, Single Most Important Problem).

Small business owners planned to reduce the frequency of overall compensation increases (Table 10). Seventeen (17) percent planned increases in the next three months. The average increase over all firms was less than 1.0 percent. However, in each of the last two July's, the gap between those planning to raise overall compensation and those who actually raised it was eight percentage points. If that pattern holds in 1990, the percent who would eventually raise average compensation in the third quarter would be 24 percent. That frequency of increase would be an improvement. It would place compensation increases on a par with those occurring in late 1987 and early 1988.

Sales

Small business sales held up remarkably well in the second quarter despite increasing economic sluggishness. Yet, with a single exception, sales in the quarter were the weakest since the last recession. Owners expected the lethargic pace to continue throughout the summer and into the fall, and little evidence existed to believe that they would not be correct.

Table 10

Plans to Change Average Compensation Over the Next Quarter

Compensation Change	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Increase	17	18	18		20	26	22	17
1-2%	2	1	2		2	2	2	2
3-4%	6	6	6		5	9	7	6
5-6%	5	6	6		7	9	8	7
7-8%	1	1	2		2	2	2	1
9-10%	1	2	1		2	2	1	1
Over 10%	1	1	*		1	1	1	*
Don't Know	1	1	*		1	1	1	*
No Answer	*	*	1		*	*	*	*
Same	69	67	69		65	61	63	70
Decrease	1	1	1		1	1	1	1
Don't Know	10	11	9		11	10	12	9
No Answer	3	3	3		3	2	2	3
TOTAL	100	100	100		100	100	100	100

Average Increase	%	%	%		%	%	%	%
Firms Increasing	5.6	5.8	5.6		5.6	5.5	5.5	5.4
All Firms	0.9	1.0	1.0		1.1	1.4	1.2	0.9

Thirty-seven (37) percent reported higher sales in the second quarter than in the first compared to 21 percent who reported them lower (Table 11). On a seasonally adjusted basis, July's number fell to its lowest level since July, 1986. The Index of Small Business Sales showed second quarter sales to be the first decline in three quarters (Chart 4). Though the sales numbers forecast no impending doom, 11 percent cited "Poor Sales" as their single most important problem (see, Single Most Important Problem).

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

Dollar Sales Volume	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Much Higher	4	4	3		2	3	4	3
Higher	34	36	36		31	29	27	34
About the Same	41	38	40		43	40	39	41
Lower	17	18	17		20	24	25	18
Much Lower	2	3	3		3	4	5	3
No Answer	2	1	1		1	*	*	1
TOTAL	100	100	100		100	100	100	100

Sales expectations for the third quarter fell from the second and were lower than one year ago. Forty-three (43) expected real sales to increase in the next three months compared to the last three (Table 12). Sales have generally tracked sales expectations, though at a lower absolute level, indicating that the level of small business sales will probably not change very much in the next three to six months. That is not promising. Poor sales will hurt many small businesses badly and some they will crush.

Earnings

A sharp jump in the Index of Small Business Earnings last quarter cannot hide the longer term erosion in small business earnings (Chart 4). After recovery from the 1986 slow-down, earnings eroded putting small business owners in a the most uncomfortable position they have been in for nearly a decade. Further, the last twelve months have been the poorest since the last recession. July's data indicated that the decline continues.

While no lower than the numbers posted one year ago, July's earnings were comparatively weak. Weaker earnings and deteriorating sales (see, Sales) explain why plans to make capital expenditures (see, Capital Expenditures) and plans to increase labor forces (see, Employment) declined.

Twenty-four (24) percent reported earnings higher in the last three months than in the prior three; 31 reported the opposite occurring (Table 13).

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
GO UP A LOT	8	8	6		7	7	11	6
GO UP A LITTLE	42	39	38		36	36	45	37
STAY THE SAME	31	30	32		27	28	25	32
GO DOWN A LITTLE	13	15	16		21	20	12	17
GO DOWN A LOT	2	3	3		5	5	3	3
DON'T KNOW	3	4	3		3	4	3	4
NO ANSWER	1	1	1		1	*	1	1
TOTAL	100	100	100		100	100	100	100

Sales volume, as usual, was the primary influence on any change in earnings (Table 14). However, rising and falling costs appeared to be a greater factor in the spring of 1990 than normal (see, Prices). Nine percent of those with higher earnings in the second quarter than in the first attributed them to higher prices and 6 percent attributed them to lower costs. Both represented increases over July one and two years ago. The same was true of those reporting lower earnings. Twenty-eight (28) percent cited increased factor costs as the primary reason. This number, too, was an increase from the prior three July's. Thus, with prices moving up and down depending on the product or service or vendor, price changes had multiple effects on earnings.

CHART 4

INDICES OF SMALL BUSINESS SALES AND SMALL BUSINESS EARNINGS

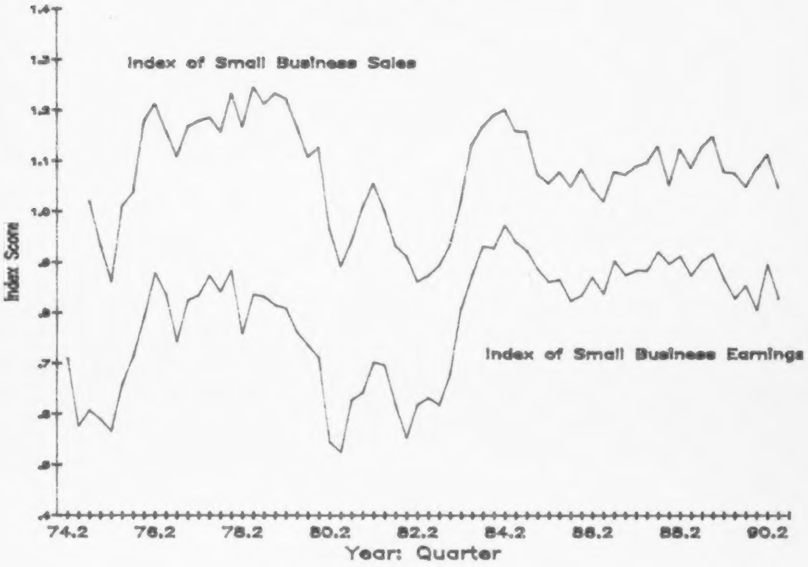


TABLE 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH HIGHER	1	2	1		1	1	2	2
HIGHER	25	25	25		22	18	19	22
SAME	43	41	41		44	43	41	43
LOWER	25	25	28		28	32	31	29
MUCH LOWER	3	4	4		4	5	6	3
NO ANSWER	3	3	1		1	1	1	1
TOTAL	100	100	100		100	100	100	100

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
SALES VOLUME	57	59	56		57	58	58	55
HIGHER PRICES	7	7	8		11	9	11	9
FACTOR COSTS*	6	1	4		7	5	4	6
SEASONALITY	21	22	27		18	20	19	25
OTHER; NA	9	11	5		7	8	8	5
TOTAL	100	100	100		100	100	100	100

REASON FOR LOWER NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
SALES VOLUME	43	41	42		45	44	45	44
FACTOR COSTS*	25	26	27		27	22	19	28
SEASONALITY	13	13	15		15	23	21	14
OTHER; NA	19	20	16		13	11	15	14
TOTAL	100	100	100		100	100	100	100

** includes labor, material, and financing costs*

Employment

Small business employment activity held steady amid reports at the quarter's end of higher unemployment and fewer jobs. Little net change in operating small business employment has been recorded over the last year. Few small business owners thought conditions would change. But contrary to expectations, there were indications in July that some labor markets were getting tighter rather than easing. The most notable were compensation (see, Compensation) increases and labor costs (see, Single Most Important Problem).

Twenty-one (21) percent reported increasing net employment over the last three months compared to 13 percent who decreased it (Table 15). The number with net increases was about the same as the number that experienced them in each of the prior three spring quarters. The principal difference was the number reporting declines and the size of those declines. Thirteen (13) percent reduced their workforces by a very large average of 6.2 employees per firm. The average net employment change per firm was +.36 employees, a typical non-recession second quarter. Yet, the size and frequency of the declines indicated more than the usual market turbulence.

The frequency of current job openings indicated that a demand for labor still existed. Twenty (20) reported that they had at least one current job opening (Table 16). The number represented

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	20	20	21		17	12	16	21
- SEASONAL	10	10	11		6	3	6	11
- NON-SEASONAL	10	10	10		11	9	10	10
DECREASED	11	10	11		15	18	15	13
- SEASONAL	3	2	2		5	9	5	4
- NON-SEASONAL	8	8	9		10	9	10	9
NO CHANGE	65	68	68		68	70	69	66
NO ANSWER	4	2	*		*	*	*	*
TOTAL	100	100	100		100	100	100	100

NUMBER OF EMPLOYEES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED (PER FIRM INCREASING)	3.8	3.9	4.2		3.3	3.3	4.7	3.8
DECREASED (PER FIRM DECREASING)	4.7	3.3	3.1		3.0	4.6	5.2	6.2
AVERAGE NET CHANGE PER ALL FIRMS	+.25	+.44	+.53		+.12	-.39	+.02	+.36

a modest change from April (down one percentage point) and June (up one percentage point). The stability suggested no trend in unemployment, though late 1989 declines in current job openings indicated that the unemployment numbers would rise sooner or later.

Most of the current job openings were for skilled labor. Just five percent mentioned at least one opening for unskilled workers, down two percentage points from April. Openings for unskilled workers have typically been in the seven to eight percent range since 1986. This decline in the small business demand for unskilled labor appeared significant. Since unskilled jobs are more sensitive to cyclical variation, they are usually the first to be eliminated.

TABLE 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
YES	21	21	24		23	21	21	20
- SKILLED	14	15	17		15	15	14	15
- UNSKILLED	3	3	3		3	3	3	2
- BOTH	4	3	4		5	3	4	3
NO	78	78	75		77	79	78	79
NO ANSWER	1	1	1		*	*	1	1
TOTAL	100	100	100		100	100	100	100

Expected net changes in the small business labor force is normally a good indicator of employment growth. If that were true in July, the number of employed American should continue to grow marginally throughout the summer and into the fall. Sixteen (16) percent planned to add one or more employees in the next three months (Table 17). The weakness lay in the ten percent who planned net reductions. Seasonally adjusted, July's employment plans represented the third consecutive quarterly decline and the second weakest set of plans since 1986.

Inventories

Small business owners have been very careful handling inventory balances. Net additions have been controlled, satisfaction with balances about the historic average, and, plans for net additions measured. As a result, small businessmen and

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASE	16	16	15		16	19	23	16
SAME	75	73	74		73	72	69	72
DECREASE	8	9	10		10	8	6	10
NO ANSWER	1	2	1		1	1	2	2
TOTAL	100	100	100		100	100	100	100

women appear in a relatively good inventory position should a recession strike.

Nineteen (19) percent reported net additions to inventory in the second quarter compared to 16 percent reporting net reductions (Table 18). Those net increases were smaller than the ones recorded in any second quarter since 1986.

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASE	20	21	20		18	16	19	19
SAME	43	45	44		46	43	44	44
DECREASE	16	13	15		16	21	18	16
NOT APPLIC.	19	19	20		19	20	18	20
NO ANSWER	2	2	1		1	*	1	1
TOTAL	100	100	100		100	100	100	100

Increased inventory and weakening sales is a formula certain to give rise to dissatisfaction with current inventory balances.

They did in July, but not to the extent anticipated. Eleven (11) percent reported their inventories were "too large" compared to nine percent who reported them "too small" (Table 19). The resulting net -2 percent was a two percentage point decline from April, but a two percentage point improvement from January. Moreover, the net -2 percent figure approximates the series average. This indicates that small business owners did not possess a large inventory over-hang which could come back to haunt them if sales continue to weaken.

TABLE 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
TOO LARGE	10	12	12		12	13	10	11
ABOUT RIGHT	57	54	55		54	55	58	57
TOO LOW	10	10	10		10	9	10	9
NOT APPLIC.	21	20	19		21	21	18	21
NO ANSWER	2	2	4		3	2	4	2
TOTAL	100	100	100		100	100	100	100

Nineteen (19) percent planned net inventory increases in April and 19 percent reported making them in July. However, just 12 percent planned reductions while 16 percent ended up making them. The pattern is typical. The number expecting increases normally matches the number who report them; the number expecting decreases normally understates the number who eventually make them. In July, 17 percent planned net inventory additions and 13 percent planned net inventory reductions (Table 20). The net number provided the most positive July inventory plans since 1985. Given the experience between plans and outcomes, October inventory changes will probably yield no net increase. Yet, even that level would be high considering sales prospects.

Capital Expenditures

Weaker earnings (see, Earnings) and tightening credit (see, Credit Conditions) were beginning to effect the capital expenditures made by small business owners. For the time being, the primary impact was on plans to make expenditures. Reported outlays did not yet appear seriously affected.

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
ADD	17	16	16		16	22	19	17
NO CHANGE	46	45	46		44	43	47	47
DECREASE	14	15	15		17	13	12	13
NOT APPLIC.	20	21	15		17	17	15	17
NO ANSWER	3	3	8		6	5	7	6
TOTAL	100	100	100		100	100	100	100

Fifty-five (55) percent reported one or more capital expenditures in the last six months (Table 21). It was the identical number recorded in April and similar to the numbers reported since the recovery began. The frequency of capital expenditures is a relatively insensitive number making shifts only during major economic changes. So are the frequencies of expenditures made for particular purposes.

Forty-six (46) percent made expenditures for equipment and vehicles (Table 21). The percent making an outlay for this purpose usually varies only a few percentage points, though 1989 was a banner year for them. With real estate problems in various parts of country, small business outlays for new buildings and land should fall. They did. Six percent reported outlays for buildings and three percent for land. These figures do not indicate a free-fall in real estate, but they were smaller than any recently recorded.

The size of capital expenditures showed no noticeable change over the past year. In July, 41 percent reported outlays of $10,000 or less; 78 percent made them of $50,000 or less (Table 22). The percentage were very similar for each quarter since the recession, including 1986.

Planned capital expenditures have been particularly strong since the beginning of 1988. It has been a bright spot for small business, neutralizing other less favorable indicators. The exception was July, 1988, when just 29 percent reported plans to make one or more capital expenditures in the next three to six months. In July, 1990, the number again fell to 29 percent, down three percentage points from April and six from January (Table 23). The decline is inevitable given weak sales (see, Sales), weak earnings (Earnings) and tightening credit (see, Credit Conditions).

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
ALL TYPES*	55	56	54		56	57	55	55
- EQUIPMENT, VEHICLES	43	44	45		46	48	46	46
- ADDED BUILDINGS	7	7	7		6	5	6	6
- IMPROVED BUILDINGS	16	16	15		16	17	16	16
LAND	4	3	4		4	4	4	3

* *percentage of firms making one or more capital expenditures*

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS BY SIZE OF TOTAL EXPENDITURES

AMOUNTS EXPENDED ($1,000s)	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
UNDER 1	7	8	4		7	5	7	6
1-4	22	20	18		20	21	21	21
5-9	15	14	13		16	15	14	14
10-19	19	22	24		21	19	20	18
20-49	17	17	20		16	18	19	19
50-99	10	9	9		8	10	9	10
100-499	8	8	11		10	10	9	9
500-999	1	2	*		2	1	1	1
1,000+	1	*	1		*	1	*	1
TOTAL	100	100	100		100	100	100	100

Table 23

Expected Capital Expenditures in Next Three to Six Months

Expect Capital Expenditure	1987 July %	1988 July %	1989 July %		1989 Oct. %	1990 Jan. %	1990 Apr. %	1990 July %
Yes	33	29	31		31	35	32	29
No	51	57	55		54	50	52	57
Don't Know	12	11	11		12	12	12	11
No Answer	4	3	3		3	3	4	3
TOTAL	100	100	100		100	100	100	100

Index of Small Business Optimism

The Index of Small Business Optimism tumbled to its lowest point since the 1981-82 recession. July's seasonally adjusted index figure fell almost three percent from April (Table 24). Though the "bottom didn't drop out," July's Index fell through the lower bound of the narrow tunnel in which the Index had been bobbing for over five years (Chart 5). The Current Status component of the Index actually rose a little over the quarter. But large losses in the General Expectations and the Spending Plans components sealed the quarter's fate. The Index suggested that the long predicted recession may finally be upon us. If so, it has been a great run - the longest peace time expansion in the nation's history. But don't give up on it just yet. This expansion has made a habit of resurrecting itself just as it is about to be declared dead. Perhaps it has one more miracle left.

Single Most Important Problem

The distribution of problems cited as the single most important has not appreciably changed since the beginning of 1988. Even then the changes only involved two problems. The number citing "Government Regulation(s)/Red Tape" rose about four percent- age points and the number citing "Interest Rates & Financing" fell about the same amount. Over the longer term, there has been a rise in the number citing "Quality of Labor." There has also been a longer term rise in the number pointing to "Other," which from written comments probably means no dominating problem and increasing difficulties with insurance, a problem not listed.

"Taxes" was again cited more frequently as the single most important problem than was any other (Table 25). It has held that position since July, 1983. Twenty-three (23) percent cited

"Taxes," the same percentage as in April.

"Government Regulation(s)/Red Tape" drew the second most frequent number of citations. It was followed by "Poor Sales," "Quality of Labor," "Competition from Large Business," "Cost of Labor," and then "Interest Rates & Financing." Interest Rates & Financing was cited by only seven percent, the same number who cited it as their single most important problem in the last three quarters and three percentage points less than the number who cited it in July, 1989. This ranking did not demonstrate any overwhelming concern with credit conditions (see, Credit Conditions).

Table 24

Index of Small-Business Optimism by Major Components

Index Components	1987 July	1988 July	1989 July		1989 Oct.	1990 Jan.	1990 Apr.	1990 July
General Expectations[1]	113.8	109.3	107.8		108.3	109.3	114.4	105.0
Current Status[2]	106.3	105.7	106.0		104.0	100.0	101.3	103.0
Spending Plans[3]	114.3	113.0	112.3		112.0	118.3	118.7	113.0
Index[4]	111.7	109.3	108.6		108.1	109.2	111.9	106.8
Index[5] 1978=100	102.7	100.5	99.8		102.1	100.7	100.8	98.2

1 ***expected business conditions, climate for expansion, expected real sales volume, expected conditions***

2 ***current job openings, current inventory satisfaction, change in net earnings***

3 ***plans to hire, make capital expenditures, add to inventories***

4 ***index numbers***

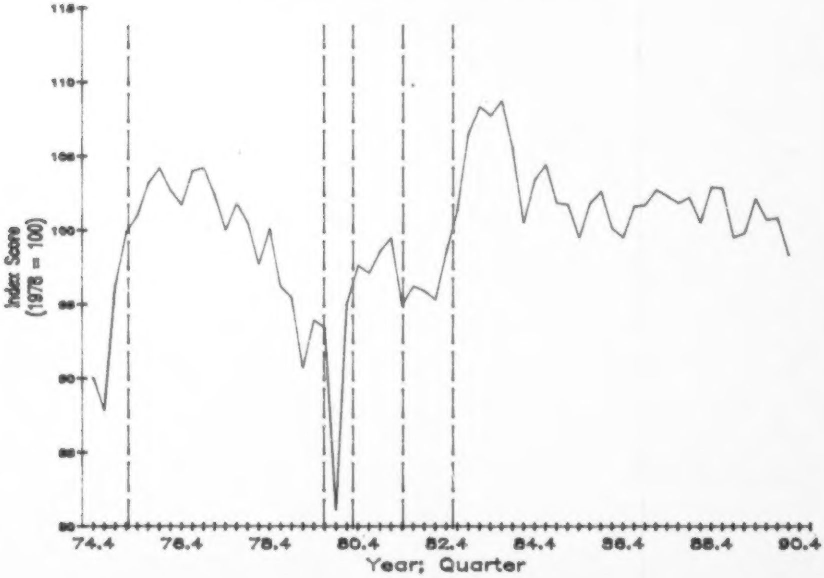
5 ***seasonally adjusted***

Regional Conditions

Regional differences in credit availability virtually mirrored regional differences in optimism (see, Credit Conditions). The regional Indices of Small Business Optimism tended to improve the farther west the region was located. The most pessimistic regional index was produced by small business owners in New England, 10 percent below the national average (Chart 6). Mid-Atlantic owners produced the second lowest regional index score and those in the South Atlantic followed (Chart 6). Indices from the central part of the country approximated the national average. Regions included were: the East South Central, Great Lakes, and the West South Central (Chart 7). Owners in three western regions were the most optimistic. The highest index for the ninth consecutive quarter was found in the Pacific region (Chart 8).

CHART 5

INDEX OF SMALL BUSINESS OPTIMISM



Owners in six of the nine regions produced indices lower than they did in July one year ago. The declines were led by the Mid-Atlantic region (8%), New England (7%) and the Great Lakes (5%). The smallest decline was recorded in the Pacific (1%). The three

regions where indices in July, 1990, were higher than in July, 1989, were found in areas which have recently been struggling. The largest year over year gain was in the Plains (4%). The Mountain region followed (2%) and the West South Central region (Arkansas, Louisiana, Oklahoma and Texas) was the third (1%).

Over the last three months, however, index scores dropped in every region but one. Most of the declines were relatively small - about one to two percent. They were larger in the Pacific and Mountain regions. The Plains was the only region where the Index rose from April (seasonally adjusted).

TABLE 25

SINGLE MOST IMPORTANT PROBLEM

SINGLE MOST IMPORTANT PROBLEM	1989 OCT RANK	OCT %	1990 JAN RANK	JAN %	1990 APR RANK	APR %	1990 JULY RANK	JULY %
TAXES	1	22	1	22	1	23	1	23
INFLATION	8	4	8	4	8	4	8	4
POOR SALES	3	11	3	11	3	10	3	11
INTEREST RATES & FINANCING	6	7	6	7	6	7	7	7
COST OF LABOR	7	6	6	7	6	7	6	8
GOVT. REG(S)/ RED TAPE	2	17	2	18	2	18	2	18
COMPETITION/ LARGE BUS.	3	11	4	10	4	9	5	9
LABOR QUALITY	3	11	4	10	4	9	4	10
SHORTAGE OF FUEL, MATERIAL	9	*	9	*	9	*	9	*
OTHER;N/A	-	11	-	11	-	13	-	10
TOTAL	-	100	-	100	-	100	-	100

The relative fortunes of small business owners in the regions continued to change rapidly. For the first time since 1979, the Index of the Plains states in July was above the national average. The Index of the West South Central region was above the national average for only the third time since early 1985. Relative improvements in other regions have not been as dramatic. Since the national Index of Small Business Optimism is relatively low, above average regional performance cannot be considered prosperity. But it does indicate less overall slide and in the case of the Plains, an absolute improvement.

There are also regions which are performing relatively, as well as absolutely, less well. The eastern seaboard leads the way. New England's small business owners are in a recession. Those in the Mid-Atlantic region may be, too. The region which has received comparatively little attention has been the South Atlantic. In April, its Index fell below the national average for the first time since 1982. In July, the region's Index slipped even farther below the national norm.

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 6
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

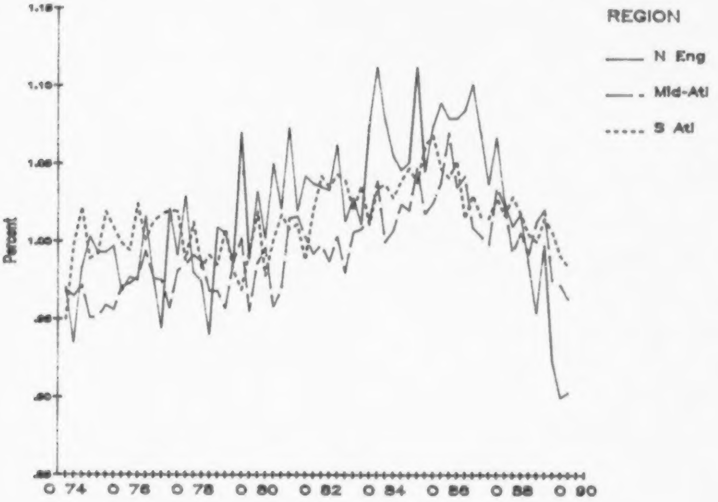


CHART 7
GREAT LAKES, EAST SOUTH CENTRAL, PLAINS, REGIONS

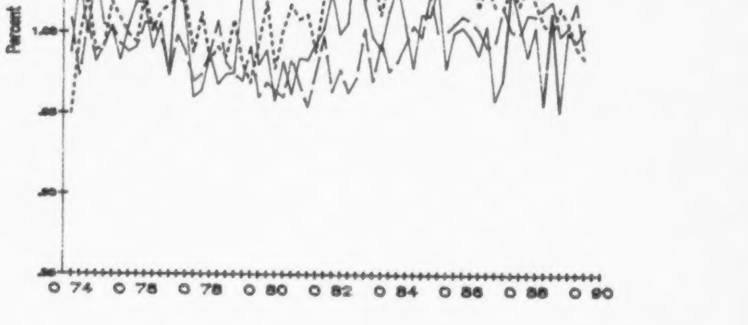
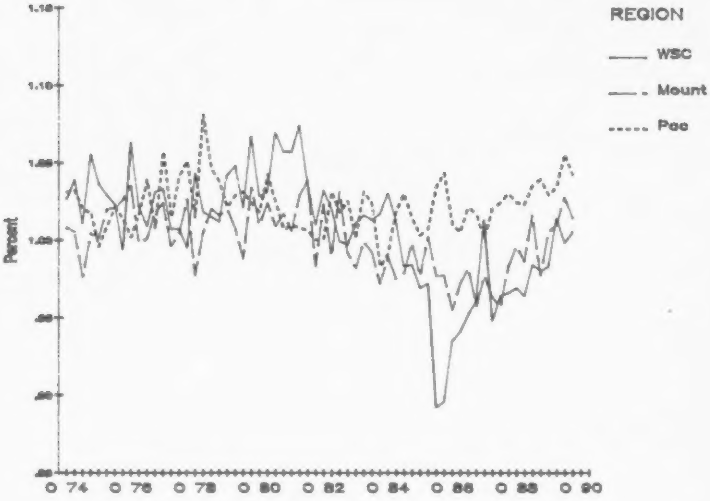


CHART 8

WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

Table A-1
Description of Industry Classification

Industry	Industry Examples
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway & bridge, etc.)
Manufacturing (mining)	(Including dairy processor, printer, publisher, machine shop, oil field service)
Transportation (communication)	Truckers, movers, warehouse, travel agent, broadcasters, public utilities
Wholesale	(Including manufacturer's representative, grain elevator, distributors)
Retail	(Including service station, restaurant, bar, clothing store, flower shop, appliance store)
Agriculture	Veterinarian, forestry, fisheries, nursery
Financial Services	Finance, insurance, real estate
Nonprofessional Services	Beauty salon, garage, motel, repair service, bookkeeper, photographer, funeral director, credit bureau, laundry
Professional Services	Physician, dentist, engineer, architect, accountant, nursing home operator, lawyer

Table A-2
Definition of Regions

Region	States
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
Great Lakes	Illinois, Indiana, Michigan, Ohio, Wisconsin
Plains	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

Table A-3
Profile of Respondents

Industry	Percent	Number
Construction	14	294
Manufacturing	14	296
Transportation/Communication	3	72
Wholesale	6	134
Retail	29	614
Agriculture	5	117
Financial Services	7	156
Nonprofessional Services	15	312
Professional Services	7	161
No Answer	*	2
Total	100	2158

Employee Size	Percent	Number
1 - 2	15	325
3 - 5	28	607
6 - 9	19	411
10 - 14	13	274
15 - 19	6	141
20 - 39	9	205
40 or More	8	178
No Answer	*	17
Total	100	2158

Region	Percent	Number
New England	5	113
Mid-Atlantic	11	230
South Atlantic	12	264
Great Lakes	18	388
East South Central	4	98
West South Central	11	227
Plains	13	282
Mountain	8	181
Pacific	17	375
Total	100	2158

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

1 Proprietorship
2 Partnership
3 Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle *the one* which contributes the most toward your gross sales or total revenues.)

1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, *etc.*)
2 Manufacturing and mining (including dairy processor, printer, publisher, *etc.*)
3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, *etc.*)
4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., *etc.*) 2
5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, *etc.*)
6 Agriculture, veterinarian, forestry, landscaping, fisheries, *etc.*
7 Financial, insurance, real estate, bank, savings & loan, *etc.*
8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, *etc.*
9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, *etc.*
10 Other (please describe)______________________________

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

1 Taxes
2 Inflation
3 Poor sales
4 Interest rates & financing
5 Cost of labor
6 Government regulation(s) & red tape
7 Competition from large businesses
8 Quality of labor
9 Shortage of fuels, materials or goods 3
0 Other____________________
(please explain)

4. Do you think the *next three months* will be a good time for small business to expand substantially?

1 Yes
2 No
3 Uncertain 4

4a. Why? (Circle **ONE** answer — *most important reason*)

1 Economic conditions
2 Sales prospects
3 Financing & interest rates
4 Cost of expansion
5 Other____________________ 5
(please explain)

5. About the economy in general, do you think that *six months from now* general business conditions will be better than they are now, about the same, or worse?

1 Much better
2 Somewhat better
3 About the same
4 Somewhat worse
5 Much worse 6
6 Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

1 Under $12,500
2 $12,500–24,999
3 $25,000–49,999
4 $50,000–87,499
5 $87,500–199,999
6 $200,000–374,999
7 $375,000–749,999 7
8 $750,000 or more

6a. During the *last calendar quarter,* was your dollar sales volume higher, lower, or about the same as it was *for the quarter before*?

1 Much higher
2 Higher
3 About the same
4 Lower
5 Much lower 8

6b. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50% 9
8 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the *last calendar quarter* higher, lower, or about the same as they were *for the quarter before*?

1 Much higher
2 Higher
3 About the same
4 Lower
5 Much lower 10

7a. If higher or lower, by approximately what percentage?

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50% 11
8 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**) 12

1 Sales volume
2 Labor costs
3 Cost of materials
4 Availability of materials
5 Received higher prices for your product or service
6 Financing costs
7 Usual seasonal change
8 Other ____________________
(Specify)

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***? 13

1 Go up a lot
2 Go up a little
3 Stay the same
4 Go down a little
5 Go down a lot
6 Don't know

9. How are your average selling prices now compared to three months ago? 14

1 Lower now
2 No difference
3 Higher now
4 Don't know

9a. If ***higher or lower***, by what percent, on an average? 15

1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services? 16

1 Yes, raise prices
2 Yes, lower prices
3 No change
4 Don't know

10a. If raise or lower, by what percent, ***on average***? 17

1 Less than 1%
2 1.0–1.9%
3 2.0–2.9%
4 3.0–3.9%
5 4.0–4.9%
6 5.0–7.9%
7 8.0–9.9%
8 10% or more
9 Don't know

11. How many employees do you have full and part-time ***including yourself***? 18

1 One
2 Two
3 3–5
4 6–9
5 10–14
6 15–19
7 20–39
8 40 or more

12. During the ***last three months,*** did the ***total*** number of employees in your firm increase, decrease, or stay about the same? 19-21

1 Increased by ____ employee(s)
2 Decreased by ____ employee(s)
3 Stayed the same

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business? 22

1 Yes
2 No

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you? 23

1 Increase
2 Keep the same
3 Decrease

14. Do you have any job openings that you are ***not*** able to fill right now? 24

1 Yes, for skilled labor
2 Yes, for unskilled labor
3 Yes, both skilled and unskilled labor
4 No

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation): 25

1 Less than one month
2 One month, but less than three months
3 Three months, but less than six months
4 Six months or more

15. During the last three months, did you increase or decrease your inventories? 26

1 Increase
2 About the same
3 Decrease
4 Not appropriate

15a. If increase or decrease, by approximately what percent? 27

1 Less than 6%
2 6%–10%
3 11%–15%
4 16%–20%
5 21%–25%
6 26%–35%
7 36%–50%
8 51% or more

16. At the present time, do you feel your inventories are too large, about right, or inadequate? 28

1 Too large
2 About right
3 Too low
4 Not appropriate

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them? 29

1 Add
2 Keep the same
3 Decrease
4 Not appropriate

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

☐1 Much higher ☐3 Same ☐5 Much lower ☐7 Inapplicable, do not borrow regularly 30
☐2 Higher ☐4 Lower ☐6 Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

☐1 Easier ☐2 Same ☐3 Harder ☐4 Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay?_______________% or Prime +_______________ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: ☐1 Yes 36
Additional Buildings: ☐1 Yes 37
Improved Buildings: ☐1 Yes 38
Additional Land: ☐1 Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

☐1 under $1,000 ☐4 $10,000-19,999 ☐7 $100,000-499,999 40
☐2 $1,000-4,999 ☐5 $20,000-49,999 ☐8 $500,000-999,999
☐3 $5,000-9,999 ☐6 $50,000-99,999 ☐9 $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

☐1 Yes ☐2 No ☐3 Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry informatio

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

☐1 Increase ☐2 Keep the same ☐3 Decrease ☐4 Don't know 42

21a. If Increase or Decrease, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% ☐7 Don't know 43
☐2 3-4% ☐4 7-8% ☐6 Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

☐1 Increased ☐2 Kept the same ☐3 Decreased 44

22a. If Increased or Decreased, by what percentage on average?

☐1 1-2% ☐3 5-6% ☐5 9-10% 45
☐2 3-4% ☐4 7-8% ☐6 Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

☐1 A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
☐2 A small city (population over 15,000 but under 100,000 in city and immediate area)
☐3 A rural area (population under 15,000 in city and surrounding communities)